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

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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

Abbreviations

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

Chapter 1 Introduction

> Until substantially more research is done on this subject, the reasons why stock market development in sub-Saharan Africa has lagged behind developments in other parts of the world must remain shrouded in mystery (UNITAR 2000:6).

The purpose of the thesis is to explain the low levels of stock market participation in developing countries of the Southern African Development community (SADC) focusing on local participation.

In general, participation in the stock market involves local and non-domestic participants. However, this thesis focuses on local participation. The contention here is that, in developing countries such as SADC where the environment may not be that conducive for foreign investors, local participation is an important indicator of the efficacy of the domestic stock market. Thus, the formation of the domestic stock market is to enable local companies to raise funds to finance domestic projects, which in turn promote economic growth.

Aggregate participation in stock markets is a function of: (1) demand for and supply of capital in relation to business opportunities; and (2) the demand for and supply of shares by investors in the secondary market. In this thesis, I argue that these factors, and thus the levels of stock market participation, are consequences of the devolved institutional environments in the developing countries. In particular, I argue that the primary influential elements in the institutional environment are the nature of the prevalent property rights regime and the related degree of industrialisation. Specific features of the property rights regimes that are of concern in thesis are: (1) the nature or type of ownership rights attached to an economic resource; (2) the protections and enforcement of property rights; (3) the development of property rights.

The nature, type or tradition of ownership and enforceability of property rights have a major impact on the utilisation of economic resources (Demsetz 1967; Alchian and

Demsetz 1973). The view of the economic literature is that, the degree of efficiency in utilisation of economic resources, which is influenced by the nature of property rights attached to a resource, determines aggregate levels of production activities and the industrial development. Aggregate levels of industrial development facilitate the demand for capital and in turn participation in the stock market (Pontecorvo 1958:561). That is, the levels of industrial development in a country are likely to vary with the nature of property rights regimes, while participation in the stock market is likely to vary with the nature of property rights regimes and the aggregate levels of industrial development in a country.

It is an acceptable tenet in the comparative markets and governance literature that property rights institutions shape the institutional environment in which stock markets operate, which in turn determine the level of economic and stock market outcomes, and consequently participation in stock markets. This literature emphasises the protection of investors against expropriation by insiders and large shareholders as reflected in quality of laws and their enforcements. It is argued in this literature that property rights institutions are important, not only for the development of capital markets (La Porta et al. 1997; 1998; 2000; 2008), but also in facilitating the role of the firm in the allocating economic resources (Johnson et al. 2002; Claessens and Laeven 2003). In the context of this literature, participation in the stock market is likely to vary with the quality of property rights institutions or the extent of investor protection and economic outcomes, in particular, the development of the capital markets.

This thesis argues that understanding the nature and impact of prevailing property rights regimes on participation in the stock market requires an understanding of how they developed and the implications of their past development processes on participation in the stock market. Zysman (1994:246) argues that the character and function of institutions are evident only in their history. Therefore, the key institutional factors that are likely to explain low participation in SADC stock markets are the nature of the prevailing property rights regimes, their development processes and the aggregate levels of industrial development. This broad scope necessitates that the role and effect of property rights be considered within the overall institutional structure of the society and the economy. This comprises: (1) the political order, which refers to role of the state in defining and enforcing property rights; (2) the institutional arrangements, which refers to the property rights, property rights institutions, and economic organisations, which includes corporations and stock markets; and (3) the cultural values (Feder and Feeny 1991).

1.1 Stock market participation and property rights

Understanding the effect of property rights regimes on participation in stock markets requires clear definitions of the relevant concepts, and how the process works. In the following sections, 1.1.1 explains the concept of participation in stock markets. Section 1.1.2 property rights definitions, and in section 1.1.3, the theory linking institutions and the development of capital markets, which forms the basis or the starting point for the framework used in this study, are discussed.

1.1.1 Participation in stock markets

Participation in stock markets involves entrepreneurs and investors exchanging property rights. Entrepreneurs participate in stock markets by exchanging equitable interests in companies' aggregate projects for financial capital needed to finance projects and company growth. Investors participate directly through the primary share market, in which they finance entrepreneurial initiatives through the stock market in exchange for shares in companies, and through the secondary share market in which they trade issued shares with other investors. The main incentive for entrepreneurial participation is the need for financial capital. Investors are motivated by expected returns on their investments. Although the secondary market for shares constitutes most of stock market transactions, ultimately, it is the availability of business prospects that determines the degree of participation in a stock market. The demand for long-term capital is conditional on availability of business prospects (Pardy 1992).

While the domestic supply of financial capital is subject to the availability of savings and the willingness of investors to hold their wealth in financial assets (Morgan and Thomas 1962:11), foreign portfolio investment flow can also provide the necessary financial capital. WIDER (1990) argues that, for developing economies, foreign portfolio investors are particularly important. WIDER (1990:2) further argue that, to attract foreign capital, developing countries must reduce obstacles to access and support the development of their markets, including developing domestic stock markets. Singh and Weisse (1998:608) find that stock markets in the developing economies of Asia and Latin America flourished because of the flow of foreign capital.

1.1.2 Property rights definitions

Property rights refer to the ownership and the nature of rights attached to property rather than the physical property itself. It is not the same as physical asset. Rather, it is more about the ownership type (Reed 2004:459). The ownership of property creates a right to control the economic asset. Because of the multiplicity of rights attached to property (Alchian and Demsetz 1973:17; Getzler 1996:654), multiple ownership of property is likely, in which case the control right is proportional to the right owned. Control rights give the right to use the property, which includes selling, exchanging, exploiting, possession, and to benefit from the return on property within the social framework. The utilisation of property is possible because of tradability and transferability of the rights attached to property owned. In a market, the incentive to exchange property is not the physical item but the value of the rights attached to it (Demsetz 1967:347).

Elements of a property rights regime are nature and role. Property rights institutions of a society are the laws, customs, traditions, and conversions that govern the behaviour in the society (Demsetz 1967:347; Joirema 2001:2; Saleh 2004:9). Property rights and property rights institutions are understood only within the context of the society (Reed 2004:498). They are part of the institutional structure of the society (Feder and Feeny 1991). Functions and purposes of property rights evolve or are developed to enhance efficiency in the use of scarce resources (Demsetz 1967). Property rights institutions evolve mainly to meet the needs of the society in regulating behaviour. As argued by Joirema (2001:2), to the extent that property rights institutions govern the behaviour in the society, they should therefore influence their economic decisions.

1.1.3 The role of institutions in stock market participation

An entrepreneurs' decision to participate in a stock market reflects their views regarding the benefits of raising financial capital through a stock market with the cost of reduced control.[1] Investors' decisions reflect their views of expected returns against risk, including the risk of expropriation by insiders or dominant shareholders. This is reflected in the argument by La Porta et al. (2000:4) "when outside investors finance firms, they face a risk, and sometimes near certainty, that the returns on their investments will never materialise because the controlling shareholders or managers expropriate them".

Private contracting for shareholders and creditors at the company level is complex and costly, thus, market forces on their own are not necessarily sufficient or efficient. Therefore, statutory provisions that offer and enforce investor protections may increase market efficiency (La Porta et al. 2008:310). While overregulation can be harmful (Modigliani and Perotti 1997:519), it is generally accepted that adequate protection and enforcement of the rights of shareholders and creditors is important to motivate them to finance firms and for the development of capital markets (Modigliani and Perotti 1997:519; La Porta et al. 1997; 1998; 2002:1147). This view is supported by some evidence of correlation between investor protection and development of capital markets (Modigliani and Perotti 1997; La Porta et al. 1997; 1998).

The legal protection of investors is seen as desirable not only for investors, but also for entrepreneurs to exchange their property rights. While investors may be concerned about their returns and appropriate interests, entrepreneurs may be concerned about the loss of control of the company. In other words, there is a trade-off between the demand for financial capital and control of the firm. Where investor protection is weak, entrepreneurs may prefer to keep control of their firm (La Porta et al. 2000:13) in fear of being expropriated themselves in the event they lose control of the firm (La Porta et al. 1999:473).

With regard to the channel through which property rights institutions influence development and participation in stock markets, La Porta et al. (1997; 1998; 2000; 2008) propose colonialism as the main mode through which the legal system spread. Central to this theory, is the concept of legal origin of the laws and regulations, which La Porta et al. (1997; 1998; 2008) and others argue accounts for the disparities in

[1] This assumes the usual vehicles of equitable shares with voting rights.

quality of property rights institutions and consequently economic outcomes around the world. They argue that the origin of commercial laws underpinning contractual relationships partly explains why the development and participation in stock markets around the world differs. According to this theory, legal origins influence the law and regulations shaping institutions and the enforcement; this in turn influences a variety of economic outcomes, including stock markets development and participation in stock markets.

In line with this perspective, studies in the law and finance area find strong association between legal origin and regulations with various factors critical for economic productivity and growth. Critical factors include the rule of law (Acemoglu et al. 2001), financial development (La Porta et al. 1997; 1998; Beck et al. 2003a; 2003b), the regulation of entry (Djankov et al. 2002), labour markets (Botero et al. 2004), and the ownership dispersion of the firms (La Porta et al. 2000).

It is argued that common law compared to civil law encourages better participation in stock markets because it better protects investors. This, in turn, encourages capital market development, better access to finance, and lower ownership concentration (La Porta et al. 2008:298). Factors contributing to the variations between the legal traditions are, mainly, the historical background and development, the predominant and characteristic mode of thought in legal matters, especially distinct institutions, the kind of legal sources it acknowledges and the way it handles them and its ideology (Zweigert and Kötz 1998:68). The importance of the historical development of institutions is expressed by Zweigert and Kötz (1998:68): "…it is self-evident that historical development is one of the factors, which determine the style of modern legal systems."

Although the contemporary legal systems, generally, spread around the world through imposition, in some instances the legal system was adopted voluntarily by members of the community who moved into different territories and carried the law with them or other communities adopting parts of the legal system (Watson 1974:29-30). The assumption of the legal origins theory is that following the transplanted of the foreign laws and principles traditional institutions evolves and adapt to new institutional environment.

This is reflected in statements such as:

> following the transplantation of some basic infrastructure such as the legal codes, legal principles and ideologies, and elements of the organisation of the judiciary, the national laws of various countries changed, evolved, and adapted to local circumstances" (La Porta et al. 2008:288).
>
> … The reason for persistence is that the beliefs and ideologies become incorporated in the legal rules, institutions, and education and, as such, are transmitted from one generation to the next. It is this incorporation of beliefs and ideologies into the legal and political infrastructure that enables the legal origins to have such persistent consequences for rules, regulations, and economic outcomes (La Porta et al. 2008:308).

This view, as discussed later in the chapter, does not necessarily reflect the institutional development path for SADC countries.

1.2 Research questions and contributions of the study

The concern in this thesis is the low participation levels in SADC stock markets. The study addresses this concern by answering the following two questions:

To what extent does participation in SADC stock markets relate to the purpose for establishing a stock market in each country? Although it is acceptable in the contemporary developing countries that stock markets are established by different institutions for various reasons, historically, a stock market emerged as economic organisation on demand to address growing need for capital by entrepreneurs willing to exchange property rights (Meeker 1922). Stock market develops alongside other organisations it is organised to serve (Pontecorvo 1958:561). This implies that it is not only the extent of demand for and supply for capital but also the demand for the organisation, the stock market, which matters for participation. Therefore, the focus of this question is on motivation for establishment of stock markets in SADC countries, how stock markets are established, and the extent to which these concur with the levels of participation for each country. The issue considered here is, does it matter how and why a stock market is established?

To what extent does participation in SADC stock markets vary in relation to differences in the development of property rights regimes in each country? In addressing this question, the focus is on understanding the nature of the institutional environments and their effects on participation in the stock markets. In particular, the focus is on the effects of: the method or ownership culture underpinning the allocation and utilisation of an economic resource; property rights security and enforcements, to which the quality of institutions is an important factor; and the development processes of property rights regimes on participation in stock markets.

While it is generally agreed that stock markets, particularly the post-independence ones have stagnated, studies have neglected the effects of property rights regimes on participation. The scope of the comparative markets and governance literature is limited with regard the development and participation in developing stock markets such as SADC countries. This thesis proposes a framework that incorporates the complexities and peculiarities of the institutional environment in which stock markets in developing countries operate in. The study provides the understanding of effects of the prevailing property regimes, their development processes and the related degrees of industrial development on participation in the stock market, which has not been fully addressed with regards to SADC countries.

1.2.1 Previous research and initiatives limitations

Studies in SADC stock markets and SADC initiative referred to later in this chapter, have neglected the importance of institutional effects in development of regional stock markets. In addition to law and finance theory, the importance of institutions for participation in SADC stock markets is further underscored by studies linking poor economic performance in sub-Saharan Africa to weak institutions, in particular, political governance (Ndulu and O'Connell 1999; Robinson and Parsons 2006).

The SADC initiative for development of stock markets in the region focuses mainly on promoting demand for the equity market. It ignores the supply channel that is equally critical for participation in stock markets. Consistent with this approach, low liquidity is a major impediment because it increases the risk for investors who will find it difficult to exit an illiquid market.[2] SADC attributes this lack of liquidity to the limited number of participants in stock markets.

[2] SADC Regional Indicative Strategic Document. http://www.sadc.int/index/browse/page/104 accessed on 22/10/08.

This thesis argues that low liquidity and low participation in stock markets are interdependent outcomes, and indicate incongruence in the institutional environment with regard to development of stock markets. By focusing largely on low liquidity as the main impediment, SADC is more likely to be addressing a spiral and cyclical effect, which has entrapped the stock markets through low liquidity, rather than the cause. In this regard, this study contributes by investigating how institutional environment in SADC countries explains the level of participation in stock markets and examining the levels of demand for and supply of capital and the demand for and supply of equity.

Generally, studies on SADC stock markets are sparse. Jefferis (1995:674) focus on the Botswana Stock Market and conclude that while the stock market has to some extent channelled long-term savings towards financing companies, none was invested in the manufacturing sector. Jefferis (1995:672) report that lack of financing of the manufacturing sector through the stock market was partly because many manufacturing firms in Botswana are too small to list on the stock market. However, Jefferis (1995) do not explain why the manufacturing sector in Botswana has remained small. This thesis contributes by explaining why manufacturing industries in SADC countries tend to be small and how that affects participation in stock markets.

Marone (2003) examine the general features of the Zambian Stock Market and conclude that it has “little, if any, contribution to the Zambian economy” (Marone 2003:25). The Marone (2003) study highlights low liquidity as the main constraint for participation in the Zambian stock market. Marone (2003) attribute this to low demand and supply of shares, which is a consequence of low number of companies listing, low shares offered to the public by listed companies, and low savings in Zambia. Similarly, Marone (2003) did not explain why there are only few listings of companies on the Zambian stock exchange. This thesis fills gap by examining the institutional environment in each SADC country and explaining how it contributes towards features described by Marone (2003).

The proposition of the law and finance theory with regard to the development of stock markets seems to assume an abundance of capital and business prospects. That is, it assumes that the necessary conditions for capital formation and industrialisation are met, whereby investors have plentiful savings and entrepreneurs are faced with numerous business opportunities. Under these conditions, if their rights are protected, investors would offer better terms to entrepreneurs allowing them to access external sources for financial capital. As explained earlier, this view of the law and finance theory is inconsistent with the economic environment in SADC countries.

Other studies focus on the effects of property rights security (Knack and Keefer 1995; Leblang 1996; Acemoglu 2001), political democracy and stability (Feng 1997; Leblang 1996) on investment and consequently economic growth. Others (Johnson et al. 2002; Claessens and Laeven 2003) examine the extent to which private property protection enhances the role of the firm in allocating economic resources. With the exception of Saleh (2004), who briefly discusses the role of cultural norms in promoting economic effectiveness of legal systems, the political and economic literatures have not adequately examined the influence of cultural values on stock markets development and consequently participation. This study makes a significant contribution in this regard by examining the effects of the ownership culture underlying economic organisations and the utilisation of resources on economic and stock market outcomes, and consequently participation in stock market.

1.2.2 The scope of capital market development literature

Notwithstanding its comprehensive and rich content, the view of the legal origins theory does not adequately explain the peculiarities and institutional complexities that characterise the environment in which SADC stock markets operate. The legal systems acquired through colonial impositions do not always supplant cultural disposition or traditional institutions. As discussed in Chapter 5, with the exception of South Africa where the settlers acquired full political autonomy, traditional institutions in most SADC countries coexisted with the settler private ownership institutions. In some territories, the traditional institutions and private property rights of the settlers were actively protected simultaneously by the imperial government. Although, prior to colonialism, the indigenous communities in SADC countries had virtually similar institutional structures and the underlying cultural values (Chapter 4), the nature of the emergent post colonial institutions varies significantly (Chapter 5). In some countries, traditional institutions re-emerged as the countries gained independence from the colonial powers (Southall 1974; Englebert 2000; Tsie 1996), suggesting that they did not adapt as La Porta et al. (2008) assert. In others, colonial institutional conflict persists, which further indicate that traditional institutions did not necessarily adapt to new attributes of the new political order.

Against this background, the general assumption of harmony between the components of the institutional structure is unlikely to be consistent with the different development paths for SADC countries. As Feder and Feeny (1991) suggest, in developing economies, the components of social institutions lack congruence and are prone to conflicts. This is more likely where the developing country is subject to external pressures. In that case, institutions are unlikely to emerge or develop in harmony with the underlying traditional values of the society. The political order is likely to impose institutional arrangements that are incongruent with the cultural values of the society. Unless transplanted institutions are assimilated as part of the institutional structure of the society and the economy or traditional institutions are effectively alienated, institutional conflicts are inevitable. It is argued here that, where institutional conflicts abound, the extent of these conflicts, rather than the attributes of transplanted institutions may largely determine economic outcomes. Institutional conflicts create uncertainties that deter long term investment, innovation and productive use of economic resources essential to enhance economic output and participation in stock markets.

This thesis addresses these concerns with regard to SADC countries by developing a property rights framework that helps to explain the effects of the nature of local institutions and institutional development processes on participation in domestic stock markets. The framework captures the omissions referred to earlier with regard to the law and finance capital development framework, and reflects the peculiarities of complexities of the institutional environment in SADC countries.

1.3 The background of SADC stock markets

Since the 1980s, stock market establishment in SADC countries has surged. This drive towards the development of stock markets in this region can be linked to the general trend in developing countries. Since the 1980s, the World Bank and International Monetary Fund (IMF) policies have been promoting the establishment of stock markets as part of the financial development and economic adjustment programmes in developing countries including sub-Saharan Africa (Demirguc-Kunt and Levine 1993:1; He and Pardy 1993:1). Financial assistance to developing countries by these international financial institutions under the economic adjustment programmes is often conditional on the establishment of stock markets (He and Pardy 1993:1). However, while in other developing economies of Asia and Latin America stock markets flourishes (Singh and Weisse 1998) in SADC countries they have stagnated. Despite the wide endorsement of stock markets, participation in the regional stock markets particularly those established since the beginning of the 1980s remain relatively low.

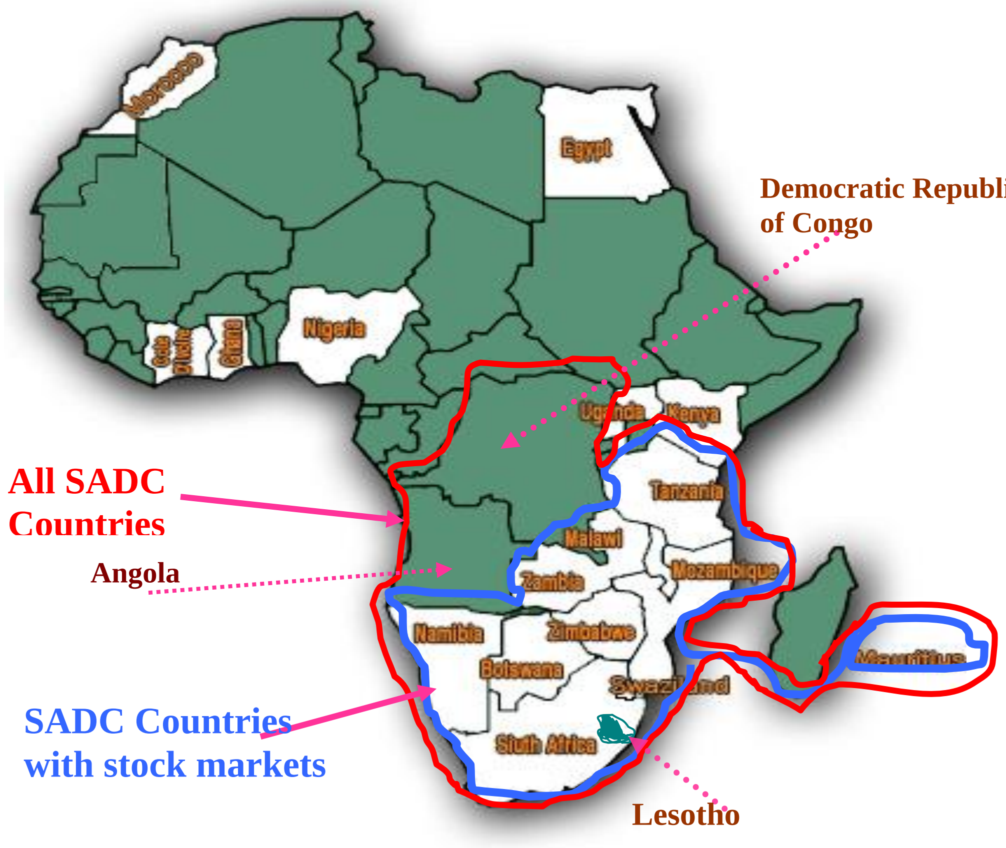
Currently, there are 17 stock markets in 53 Africa countries, 10 of which are in SADC countries. Figure 1.1, indicates the locations of stock markets within the African continent. SADC region as shown in Figure 1.1 has the highest concentration of stock markets than other regions in Africa.[3]

SADC has 14 member countries. Madagascar was only admitted into membership in August 2005, after the commencement of this study. The 13 member countries considered in this study are: Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

Although SADC stock markets are relatively small, there are two exceptions, namely South Africa and Zimbabwe. Unlike in other SADC countries where stock markets were established by the governments after a country's independence, in South Africa and Zimbabwe, they were established by European settlers following the discovery of minerals. It is argued here that these origins, rather than their ages are more likely to account for the degree of disparity between the pre-independence stock markets of South Africa and Zimbabwe and other SADC countries. Even then, the age could not have sustained the Zimbabwean stock market (as discussed in Chapter 7), against the economic and political crisis facing the country.

[3] Angola was reported to be in the process of launching its stock market during the third quarter of 2008. This will leave only Democratic Republic of Congo and Lesotho without stock markets: http://www.afrol.com/articles/15679 accessed on 21/08/08

Figure 1.1: African countries with stock markets



There is a general consensus with regard to the fact that SADC stock markets, in particular, the post-colonial ones, are not only relatively small but also lack liquidity and have low participation. The Standard and Poor's emerging markets classification confirms these attributes of SADC stock markets and their disparities in size. The classification divides developing stock markets into two categories, the emerging markets and frontier markets based on market capitalisation and liquidity constraints. South Africa and Zimbabwe are the only regional stock markets included in the main category of the emerging markets. Botswana, Mauritius and Namibia are in the frontier markets grouping, which is a category of the emerging markets for the relatively small and illiquid stock markets. Other SADC stock markets were not classified, presumably because of the extremely small size. [4]

[4] http://www2.standardandpoors.com/spf/pdf/index/brochure_EMDB.pdf accessed on 20/08/08

The regional body, SADC, concede through its strategic document (Regional Indicative Strategic Development Plan), that regional stock markets are small in size, lack liquidity and have low participation. As an attempt to address these shortcomings, SADC has incorporated the development of stock markets in the overall regional integration strategy, mainly to improve their attractiveness to both, local and international investors. The main emphasis for the SADC initiative is to improve liquidity, which is seen as the critical constraint for participation in regional stock markets. The strategy is to keep the national stock markets autonomous, while establishing an integrated real-time network of national stock markets and harmonising policies, legal and regulatory framework. [5]

1.4 Developing a theoretical framework

In order to explain the effects of the local prevailing property rights regimes on participation in the stock market it is necessary to consider their nature, role and implications within the context of the institutional structure of the economy and the society and to understand how these factors relate participation in domestic stock markets. Based on the definition by Feder and Feeny (1991:136), the institutional structure of the society and the economy comprises of: (1) political order, which define the choices and protect property rights; (2) institutional arrangements, which includes property rights per se, property rights institutions and economic organisations, such firms and stock markets that facilitates property rights contracts; and (3) cultural values, which influence the behaviour and choices in the society. Each of these categories relies on a set of cognitive rules, codified laws and systems, which inform and constrain behaviour and thus influence individual choices.

Feder and Feeny's (1991) categories of institutional structure are useful for the purposes of this study because they facilitate the examination of the influence of each component of the institutional structure on participation in the stock market. The approach elucidates the significance of cultural values, which is often neglected under the presumption that institutional and economic problems can be understood by reference to economics alone.

[5] More details can be found in a SADC document entitled Regional Indicative Strategic Development Plan (RISDP) accessed on 21/08/08

It is also argued in this thesis, that because of the peculiarity of nature of the institutional environment in SADC countries, it is essential to view the nature of the prevailing institutions in their local context in each country. This requires an understanding of how the prevailing property rights regimes developed, and the implications of the past development processes for participation in the domestic stock market.

To achieve these factors, the thesis incorporates theoretical elements regarding property rights, stock market development and institutional path dependence to construct a theoretical framework in which the nature of the prevailing property rights regimes, their development processes and the related industrial development explain participation in the stock market. The roles of each of the three theoretical elementary aspects underpinning the framework are outlined below.

1.4.1 Finance theory of stock markets

The significance of finance theory of stock markets is that it explains the role of and incentives for establishing a stock market. Identifying the incentives behind the formation of stock markets will provide an insight into the low participation phenomenon in SADC stock markets. For example, does it matter for participation whether the establishment of the stock market was driven by demand for capital or not? Finance theory explains how and why investors and entrepreneurs participate in stock markets including conditions for their participation in stock markets.

Stock markets are part of the property rights economic organisations that facilitate the exchange of contracts between entrepreneurs and investors. Thus, to the extent that stock markets mobilise savings from various investors, convert them into financial capital and allocate it efficiently to entrepreneurs that are able to generate higher returns (Mirowski 1981:566; Singh 1999:348-349), they facilitate the exchange of property rights essential to encourage production activities in the economy.

1.4.2 Property rights literature

Property rights literature defines the nature of incentives underpinning the type of ownership rights attached to an economic resource, and nature and levels of property rights security and enforcement of rights. These factors enhance production activities and industrial development that facilitates the demand for capital and in turn participation in the stock market. Notwithstanding these views, ultimately, the extent to which property rights incentives enhance participation in stock market depends largely on the availability of business prospects.

The economic property rights literature suggests that the nature of property rights, in particular whether property is alienated or communally owned, matters. This proposition derives from the notion that the incentive for individuals to expend the effort, invest the capital and increase production is more likely where property is alienated and individualised. In the context of property rights theory, communal ownership is an inefficient institutional arrangement. The holders of communal property rights lack the incentives to pursue efficient outcomes because of their inability to capture the reward of their efforts. Instead, the tendency is for the holder to overexploit the economic resource (Demsetz 1967; Alchian and Demsetz 1973).

Quiggin (1988) suggests that communal ownership can be reformed to improve efficiency by putting in place mechanisms that ensure enforceability of rights against non-owners and the prevention of owners from abusing the rights, and operational framework is clearly defined. However, Quiggin (1988:1080) argues that the criterion for a choice of the property rights structure should be the need to create harmony within the institutional structure of the society. Thus, in the drive for productive efficiency through private ownership, there ought to be a consideration for harmony in the institutional structure, which is the greatest strength of communal ownership. This is an important test for developing countries experiencing transformations of institutional structures. Feder and Feeny (1991:136) suggest that components of the institutional structures under transformation are prone to conflicts. They tend to lack congruence. It is argued in this thesis that, where the components of the institutional structure are in conflict, the extent and nature of the conflict influence incentives for long-term savings and investment, and the degree of productive activities.

The other aspect of property rights literature relates to the quality of institutions, which determines the levels of property security and the enforcement of property rights. In general, the quality of institutions determines the degree of certainty in the institutional environment and consequently, the incentives for long-term savings and investment. Property security builds on similar principles underpinning the capital markets development theory identified in section 1.1.3. The argument being that the extent to which the government protects and enforces private property rights determines the incentives for entrepreneurs to exert effort and invest long-term to enhance productive activities, and for investors to provide long-term capital. Enhanced productive activities increase the demand for capital, motivating the listing of companies in the stock markets. Long-term savings facilitates the supply of capital to finance projects and company growth through the primary share market, and the trading of shares in the secondary market.

1.4.3 Institutional path dependence theory

The analysis of the institutional path dependence analysis facilitates the linking of the current institutions to the historical events that influenced them (North 1990:98; Mwangi 2006:158). It is expected that identifying the nature of any institutional development path dependence will illuminate the prevailing institutional functions, operations and the nature of incentives. Zysman (1994:246) suggests the features and outcomes of institutions are more likely to be understood from their history.

1.5 Method

The main research method in this thesis is a qualitative, historical approach. It is largely dictated by the nature of the research question and objectives of the study, which require explaining the effects of changes. The strength of the historical approach lies on its ability to not only to narrate the past but also to explain how the past influenced the current and future institutional outcomes (Crewell 1998:17; Smith and Lux 1993).

The analysis relies on archival and secondary data collected from various sources. Using data from different sources to evaluate a single phenomenon such as participation in stock markets should improve the validity of the results. The use of multiple sources also helps to mitigate the general scarcity of data with regard to SADC stock markets.

Secondary data sources used in the thesis are largely published works including reports by the colonial administrators, reference books and research and reports describing institutional settings, interrelationships, cultural attributes, land tenure systems and institutional factors. Secondary sources are also used to identify the institutional development path for each country, tracing the development of property rights institutions from pre-colonial through to the current contemporary independent states, in which stock markets proliferated.

Archival data used in this study is mostly generated by individual countries and includes economic statistics such as economic output and size of the population. However, it was not possible to obtain this data from the individual countries and it was mostly obtained from the websites of the African Development Bank, United Nations and the SADC. Data pertaining to the quality of property rights institutions is mostly in the form indices prepared by international organisations such as Freedom House, Transparency International and Heritage Foundation.

Stock market data is largely sourced from individual stock exchanges. In cases where the data from the stock exchanges and company reports was not adequate or accessible, as in the case of Zimbabwe and to some extent Malawi, it is obtained from the African Securities Exchanges Association (ASEA) yearbook 2006 and the United Nations Development Programme's African Stock Markets handbook 2003.

The archival data is used mainly as indicators of the contemporary nature of institutions and institutional outcomes. The analysis links the institutional outcome in a particular country with the historical events identified from secondary sources that influenced them.

This thesis uses economic and stock market outcomes as proxies for economic and stock market outcomes, from which participation in the stock market is inferred. The effect of institutions on the current outcomes is inferred from the historical events that marked the institutional development path dependence and the subsequent institutional outcomes, such as the nature of property rights institutions.

The non-parametric Spearman correlation coefficients are used to examine relationships between some institutional environment proxies and the economic and stock market outcomes, mainly to complement the qualitative analysis findings.

1.6 Organisation of the thesis

Chapter 2 describes the SADC and discusses its policies in relation to the development of stock markets in member countries. Chapter 3 identifies the basic elements of the framework of the thesis that is further developed in Chapters 4 and 5.

To explain the effects of the institutional development process on the current institutional outcomes, it is important to understand the past and the transition from the past to the current state of institutions. This is detailed in Chapters 4 and 5. Chapter 4 describe the pre-colonial traditional institutions, highlighting the persisting cultural values and norms, while Chapter 5 details the transformation processes and the subsequent outcomes.

The empirical analysis in Chapters 6 and 7 integrates the theoretical perspectives defined in chapter 3 and the institutional development path dependence to evaluate the capacity of a country to sustain a viable stock market (Chapter 6) and explain participation in stock markets (Chapter 7). Lastly, Chapter 8 presents the summary and conclusions, and highlight future research direction, and recommendations.

1.7 Limitations

The complexity of the institutional development paths in SADC countries that shaped the institutional environment and influenced the economic and stock market outcomes cannot be fully explained within the scope of a single study.

Because institutions are not static and impermeable, it also possible that the contemporarily observed institutional outcomes have been largely influenced by factors not considered in this thesis. Nonetheless, it is unlikely that the strong linkage between a country's colonial experience and their institutional outcome in this thesis is fully attributable to any omitted factors.

Generally, the availability of data restricted the empirical analysis in this thesis. For example, the lack of data on individual investors and foreign participants limited the scope of the analysis. Similarly, the non-availability of data regarding incorporation rates prevented analysis of the roles of corporations outside the stock markets.

Chapter 2 The Southern African Development Community Institutional Setting

2.1 Introduction

This chapter describes the Southern African Development Community (SADC) institutional setting, objectives and strategies and examine its role with regard to the development of stock markets in member countries. Of particular interest is the nature and extent to which SADC policies promote formations and development of stock markets and their implications for participation in the stock markets. To facilitate a better understanding of the nature and role of stock markets in SADC countries, this chapter also examines the nature and extent of influence of other organisations, in particular the international financial institutions in the establishments and development of stock markets in SADC countries.

The purpose of this thesis is to explain low participation in SADC stock markets. This chapter facilitates this by describing the levels of participation in each country.

The chapter discusses the characteristic features of SADC countries in section 2.2. The foundations, aims and objectives of SADC are described in section 2.3. In section 2.4, the chapter describes SADC and the international financial institutions policies and initiatives towards the establishment of stock markets in member countries. Section 2.5 gives an overview of the evolution of SADC stock markets highlighting significant variations that are likely to explain the variations in the levels of participation in SADC stock markets. In section 2.6, the chapter discusses participation in SADC stock markets using stock market development indicators as proxies, while 2.7 conclude the chapter.

2.2 Characteristic features of SADC economies

This section briefly highlights the characteristic features of SADC countries for better understanding of SADC as an organisation. Their implications for economic outcomes and participation in stock markets in particular, form part of the analysis in the remaining chapters. Detailed historical background of SADC counties is discussed in Chapter 5.

SADC countries, with exception of Mauritius are predominantly Bantu communities. The Bantu speaking communities are spread over a large part of sub-Saharan Africa.[6] Despite their ethnic diversity, Bantu communities had similar social, economic and political structures (Schapera 1937; Guthrie 1962; Phillipson 1976; Ehret 2001). Their colonial experiences however, varied. Colonial power and policies differed among territories, even those under the same colonial power (Tredgold 1934:396). The postcolonial political structures also varied widely, including "monarchies, white oligarchies, capitalist, traditional democracies, single party systems and socialist regimes" (Coleman 1994:86).

Table 2.1 describes SADC countries with respect to independence and size. Prior to 1960, all SADC countries were under a colonial power. Table 2.1 indicates the last colonial power in a territory, with Britain dominating. Tanzania, Namibia and Mauritius had colonial successions. Tanzania was a German colony from 1880 to 1919. Britain took over the territory in 1919 until independence in 1961. South Africa undertook the administration of Namibia in 1915, taking over from Germany (1894-1915) and occupied the territory until independence in 1990. South Africa was itself under the British rule at the time. The settlers in South Africa were granted political autonomy by Britain in 1910 and continued to rule until the inclusive multiracial elections in 1994. Mauritius was first occupied by Portuguese sailors until they abandoned it in 1710, then the French occupied it from 1715 to 1810, before coming under British rule, from 1810 to 1968. South Africa was ruled by the European settlers from 1910. In 1923, Britain gave the European settlers a partial political authority over Zimbabwe. They had legislative power through the local parliament, but the right to

[6] A detailed description of Bantu communities can be found in Schapera (1937), Guthrie 1962, Phillipson (1976) and Ehret (2001) among others.

govern the political rights of the indigenous communities remained with Britain (Baxter and Hodgens 1957:444). Zimbabwe achieved political independence from Britain in 1980.

This thesis argues that these different experiences contribute to the economic disparities including participation in stock markets.

Table 2.1: General features of SADC countries

Country	Colonial power	Independence year	SADC membership	Population (m)	(year)	GDP US$m (2004)
Angola	Portugal	1975	1980	14.0	(2005)	20 272
Botswana	Britain	1966	1980	1.8	(2005)	8 441
D.R. Congo	Belgium	1960	1997	59.7	(2005)	6 395
Lesotho	Britain	1966	1980	2.4	(2005)	1 373
Malawi	Britain	1964	1980	12.0	(2005)	2 078
Mauritius	Britain	1968	1995	1.2	(2005)	6 317
Mozambique	Portugal	1975	1980	19.4	(2002)	6 380
Namibia	South Africa	1990	1990	1.8	(2003)	5 346
South Africa	Britain	1994	1994	47.4	(2005)	212 777
Swaziland	Britain	1968	1980	1.1	(2004)	2 307
Tanzania	Britain	1961	1980	35.3	(2004)	10 851
Zambia	Britain	1964	1980	11.1	(2005)	5 315
Zimbabwe	Britain	1980	1980	11.9	(2004)	4 546

Sources: Population is from the Southern Africa Development Community (SADC) website[7]; GDP is from United Nations Conference on Trade and Development (UNCTAD) handbook of statistics for 2005[8].

[7] http://www.sadc.int/ accessed 20/09/2008
[8] http://www.unctad.org/Templates/Page.asp?intItemID=1890&lang=1 accessed 20/09/2008

2.3 The SADC aims and objectives

The aim here is to describe the object of study, the SADC, and place its policies, objectives and strategies in the context of the subject matter of the study, highlighting the likely implications. This thesis argues that the colonial history of the SADC countries has shaped their institutional environment and largely contributes to the institutional disparities, including participation in stock markets. The SADC itself is a consequence of colonialism. Its formation was premised on countering the effects of colonialism. Cooperation among SADC countries preceded the formal organisation. Initially, the regional corporation was directed towards coordinating efforts, resources and strategies towards political liberation of Southern Africa. The organisation commenced in 1980 when governments of Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe formed the SADC predecessor, the Southern African Development Coordination Conference (SADCC). The then apartheid South Africa and Namibia, which was annexed by South Africa, were excluded and only admitted after independence; Namibia in 1990 and South Africa in 1994.

The aim of the original SADCC member states was to reduce their economic dependence on the then apartheid South Africa. They intended "to forge links; to create genuine and equitable regional integration; to mobilise resources for implementing national and interstate policies; and to take concerted action to secure international cooperation within the framework of a strategy of economic liberation".[9]

SADCC was transformed into a development community, the SADC, through a treaty by heads of states and governments in Windhoek, Namibia on 17 August 1992. By then, the political landscape in the region had changed, rendering the motivation for the formation of SADCC less relevant. Namibia had attained political independence from South Africa in 1990. In South Africa, the unbanning of political parties in 1990 had brought hope for a transition towards a representative government and increased prospects of an encompassing regional cooperation. Further, negotiations between warring political parties in Angola and Mozambique posed positive signs towards

[9] SADC Regional Indicative Strategic Development Plan (RISDP): http://www.sadc.int/english/documents/risdp/index.php accessed on 15/10/2006.

ending the post-independence internal conflicts and civil wars. Within the continent, the SADC had to adjust to position itself as one of the regional economic blocks. The transformation of SADCC was also a response to what member states observed as a global trend and the need to create the environment conducive for firm growth:

> Countries in different regions of the globe were organising themselves into closer economic and political entities. This movement towards stronger regional blocs was expected to transform the world, both economically and politically, as firms within the economic blocs would benefit from economies of scale provided by large markets, to become competitive both internally and internationally. For firms in Southern Africa not to remain behind, it became imperative for a large regional market to be established so that they too could benefit from economies of scale.[10]

Consequently, the role of the organisation changed from coordination of development projects to a much broader and complex mandate to:

> Promote deeper economic cooperation and integration to help address many of the factors that make it difficult to sustain economic growth and socio economic development, such as continued dependence on exports of few primary commodities. It had become an urgent necessity for SADC governments to urgently transform and restructure their economies. The small size of their individual markets, the inadequate socio-economic infrastructure and high per capita cost of providing this infrastructure as well as their low income base made it difficult for them individually to attain or maintain the necessary investments for their sustainable developments.[11]

In principle, SADC policies advocates for political democracy and governance, the rule of law, respect for human rights, good economic and corporate governance, and corruption control among the member states to achieve economic growth.[5]

> SADC Member states are committed to promote common political values, systems and other shared values, which are transmitted through institutions that are democratic, legitimate, and effective. In line with this, SADC firmly acknowledges that economic growth and development will not be realised in conditions of political intolerance, the absence of the rule of law, corruption, civil strife and war.[12]

However, in practice SADC policies do not necessarily enforce the ideals it advocates. For instances, there are no punitive sanctions to curb the poor political governance and undemocratic regimes from flourishing. Promulgation of goals on its own without adequate enforcement is unlikely to motivate individuals to exert the effort and invest long-term, which is important to enhance productive actives and industrial development that promote economic growth.

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[10] SADC website: http://www.sadcreview.com/sadc/frsadc.htm accessed on 15/10/2006.
[11] SADC: http://www.sadcreview.com/sadc/frsadc.htm accessed on 15/10/2006.
[12] SADC: http://www.sadc.int/index/browse/page/107 accessed on 17/09/2008.

In the remaining chapters, this thesis examines the extent to which SADC policies, aims and objectives are reflected in the nature of institutions, the levels of industrial development and stock markets participation.

2.4 The SADC stock market development initiatives.

This section considers the role of the regional body, SADC and the international financial institutions in the establishment of domestic stock markets. The objective is to determine the extent to which the policies of these organisations might have influenced the establishment of stock markets in SADC countries and how that helps to explain low participation in stock markets.

2.4.1 SADC strategies for stock market development

SADC promotes regional integration as the main strategy to overcome the small size of its national markets and as a way to enhance economic growth and development. It is argued that an enlarged and harmonised regional market will enhance competitiveness and motivates investment in the region. The national stock markets are among the institutions earmarked for integration. To facilitate the integration of stock markets the Committee of SADC Stock Exchanges (COSSE) created in January 1997, serve as a subcommittee of the SADC Committee of Central Bank Governors (CCBG), which is responsible for the financial and monetary integration. COSSE is to fast-track the development of capital markets in the region, to harmonise the legal and regulatory instruments, while improving practices and broader participation in the equity markets.[13]

[13] SADC Regional Indicative Strategic Development Plan (RISDP): http://www.sadc.int/english/documents/risdp/index.php accessed on 17/10/2006

Through the integration strategy, SADC seeks to:

> Achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged through regional integration; evolve common political values, systems and institutions; promote and defend peace and security; promote self-sustainable development on the basis of collective self-reliance, and interdependence of the member states; achieve complementarity between national and regional strategies and programmes; promote and maximise productive employment and utilisation of resources of the region; achieve sustainable utilisation of natural resources and effective protection of the environment; strengthen and consolidate the long standing historical, social and cultural affinities and links among the people of the region (SADC Treaty Article 5).[14]

SADC policies on the development of stock markets emphasise improving the infrastructure and regulatory framework, skills-sharing, dual-listing and cross-border investment within the SADC to accelerate development of a regional capital market. The target was for COSSE to develop and implement programmes and strategies to increase participation by the broader population in the equity markets by 2008. The domestic governments are to play a significant role by encouraging a wider participation in the national stock markets. [7] It is the contention in this thesis that participation needs to be assessed at the local level before other development strategies can be usefully considered.

SADC member countries have recently been reviewing their regulatory frameworks to align the domestic facilities with the higher standards required by the international community. For example, Botswana introduced a revised Companies Act in 2007, which emphasises high corporate governance standards and makes it easier and simple to form a company. Swaziland produced new listing rules in 2005, while in same year Zambia launched the corporate governance code. Mauritius has also reviewed their corporate statutes. Irving (2005:29) observes that Zambian stock exchange is one of the most technologically advanced exchanges in the SADC region. The Namibian stock exchange adopted the South African stock exchange electronic trading system in November 1998. Although it might be early to assess the effect of the restructuring of the market infrastructure, this thesis argues that the regulatory framework addresses the risks but not the capacity to participate, which is likely to be the main impediments in SADC countries.

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[14] http://www.sadc.int/english/documents/legal/treaties/declaration_and_treaty_of_sadc.php accessed on 17/10/2006

2.4.2 The role of international organisations

The international financial institutions' (IFI) policies have since the 1980s been promoting the establishments of stock markets as part of the financial development and economic adjustment programmes in developing countries including sub-Saharan Africa (Demirguc-Kunt and Levine 1993:1; He and Pardy 1993:1). The establishment of a capital market is often a prerequisite for the IFI financial assistance a developing country (He and Pardy 1993:1). The IFI according to Singh (1999:344), consider the development of stock markets to be a stage in the natural economic progression of a nation towards industrialisation.

The international organisations, including the IFI, associate poor performance of sub-Saharan countries with their prevailing economic and political structures that tended to be highly centralised and the distrust of the private sector (World Bank 1994). The position of these organisations is that sub-Saharan countries should transform their economies and allow the private sector to improve economic growth. It is argued that private sector has greater incentives and the capacity to improve efficiency in the utilisation of resources and increase production and economic growth. To ensure efficient private sector delivery, governments are advised to create policies and remain committed to ensuring security over private property, have strong regulations, good infrastructure connecting companies and customers, well-functioning financial markets, control on corruption and a competitive environment (World Bank 2005).

In those SADC countries that are judged by the IFI to have poor policies due to their centralised economic and political structures (Malawi, Mozambique, Tanzania and Zambia), the establishment of stock markets is part of the economic adjustment programme with the IFI sponsoring their establishments by proving finance and technical skills. It appears that the involvement of the IFI in the establishment of stock markets in those SADC countries (Botswana, Namibia, and Swaziland) with "a tradition of better policies", therefore not under economic reconstruction (World Bank 1994:36) is limited to a tacit influence. Stock market establishment in the latter countries is initiated by government agencies (Botswana and Swaziland) or the private sector aided by the government legislation (Namibia). This disparity suggests that, in terms of the

IFI policies, the establishment of a stock market in a developing country is not only a stage in economic progression (Singh 1999:344) but also part of a transformation process to correct ineffective systems and recreate institutional culture.

Although the perception is likely to change as indigenous communities adapt and increase participation, in general, there is, doubt with regard to the objectives of the IFI in fostering privatisation of government owned enterprises of which stock markets development is part. The initial reaction of the indigenous communities to the IFI' initiated privatisation policies was resentment as the initiative is perceived to be part of the neo-imperialism intended to creative foreign ownership (Malawi and Zambia privatisation reports).[15]

According to the Malawi Privatisation Commission:

> There can be no question that Malawian participation in the programme is most desirable. There are political, social and economic reasons for such participation. Politically, Malawian participation offers a means to gain support for privatisation. In Malawi like in other African countries, the populace, uncertain of the potential consequences of privatisation, has opposed privatisation or, at least, has not actively supported it. By ensuring that citizens receive some direct benefit, the Government stands a chance to win support for the privatisation programme. Socially, their participation offers a way of providing more equitable distribution of wealth in the country, as well as avoiding a perception that the privatisation programme benefits only foreigners, wealthy individuals, or certain groups in society. Economically, broad-based ownership schemes benefit the country by providing a means to expand and deepen capital markets and to improve the efficiency of the country's industries.[16]

In addition to the IFI, other international organisations such as the World Institute for Development Economics Research (WIDER) have also encouraged the establishment of stock markets in developing countries arguing that this will facilitate the flow of foreign capital to boost economic development. To be able to benefit from the flow of foreign capital, developing countries are advised to increase supply of suitable stock and support the market development through among others appropriate regulations (WIDER 1990:4). While the flow of foreign capital might have boosted stock market development and participation in other developing countries (Singh and Weisse 1998:608), the effect on SADC stock markets is not immediately clear. Despite the

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[15] Malawi Privatisation Commission: http://www.privatisationmalawi.org/; Zambian Privatisation Agency: http://www.zpa.org.zm/ accessed on 16/12/2008.
[16] http://www.privatisationmalawi.org/index.php?option=com_content&task=view&id=32&Itemid=103 accessed on 26/02/2008.

wide endorsement of stock markets, participation in SADC stock markets, in particular, the post-independence ones established within the 1980s timeframe remains relatively low.

2.5 Establishment of stock markets

The SADC stock markets are in two broad categories based on the period on which they were established. The first grouping comprises of South Africa and Zimbabwe that were established by the European settlers as part of the development of their private property rights. Their establishment was driven largely by the demand for capital in the 1800s following the discovery of minerals. In the second group, stock markets were established after a country has gained independence from the colonial power. The grouping comprises of those established by the government through its agencies (Botswana and Swaziland), those established by the private sector aided by government legislation (Mauritius and Namibia), and lastly those that were established by IFI and the governments (Malawi, Mozambique, Tanzania and Zambia). The purpose, initiatives and the year on which a stock market was established are summarised in Table 2.2.

The circumstances under which the post-independence stock markets are established vary. Mauritius Stock Exchange was established in 1989 as private company following the enactment of the Stock Exchange Act, 1988. The Namibian Stock Exchange was formed by a group of private individuals and businesses with each contributing an equal amount of N$10 000 as start-up capital. The government assisted with the regulatory framework. In Botswana, the stock exchange started as a share market in 1989 and converted into a stock exchange in 1995 following the act of parliament – Botswana Stock Exchange Act, 1994. The establishment of a stock market in Botswana was initiated by the Botswana Development Corporation (BDC), which is an investment arm of the government. For Swaziland, the government initially appointed a committee to explore the economic benefits of the stock exchange. Based on that report, the central bank spearheaded the establishment of the stock market. Other post-colonial stock markets are products of the governments and the IFI. The establishment of stock markets in these countries was also to facilitate government divesture of public enterprises.

Notwithstanding this, only a small fraction of government-owned enterprises are privatised by public offering. For example, in Tanzania, the stock market was established in 1996, in the same year 47 companies were privatised, 40 in 1997 and 15 in 1998 but only 2 companies had listed on the stock exchange in 1998. The number of companies listing increased to 4 the following year, which was far below the number privatised in the same year. The Lusaka stock exchange is not different. The first corporate listing is by two companies, two years after formation. Within the same period, more than 67 companies were privatised. The latest reports from these two countries show 33 privatisations in Zambia between 1999 and 2003 (Zambia Privatisation Agency – status report 2005) and 55 in Tanzania between 2002 and 2004 (Parliament – Budget Speech 2002-2004). It seems the preferred mode is that of selling to the highest bidder through a competitive tender. This may indicate that either the privatised companies are small to be listed in the stock market, or there is low preference for the stock market by local entrepreneurs. These outcomes have implications in growth and development of domestic stock markets.

Table 2.2: Reasons for establishing stock markets – SADC

Country	Year	Initiative	Purpose
Botswana	1989	Government; indirectly through its investment agency (Botswana Development Corporation).	Part of development of financial system. To promote alternative channel linking savers and investors (National Development Plan 9, 2003/4 -2008/9)
Malawi	1996	Government; International Financial Corporation (IFC), Dutch Development Bank.	Part of the financial reforms, through which government would successfully privatise companies in hands of the citizens.
Mauritius	1989	Private sector initiative. Preceded by government legislation	
Namibia	1992*	Private initiative, government provided the enabling legislation.	The idea of a new stock market hedged in the run-up to the 1990's independence
Mozambique	1999	Government; World Bank; Lisbon stock exchange (source: Irving 2005:31)	Part of the economic reforms meant to facilitate privatisation of government owned economic entities (Irving 2005).
South Africa	1887	Private sector initiative	Driven by discovery of minerals, part of the colonial strategy.
Swaziland	1990	Government initiative,	To explore the economic benefits, following recommendation of government appointed committee.
Tanzania	1998	Government;	To facilitate government implementation of the reforms; transforming the economy of the country from public sector to private sector driven; encourage wider share ownership.
Zambia	1994	Government; International finance corporation (IFC); world Bank; initial funding government and UNDP.	Part of the economic reform programme to facilitate government divestiture of government ownership in parastatals; to create a wide shareholding by citizens.
Zimbabwe	1946**	Private sector initiative.	Driven by discovery of minerals, part of the colonial strategy.

Other sources: Domestic stock exchanges; African Securities Exchanges Association (ASEA) handbook 2006. *First established in 1910 but did not last. ** The First stock exchange 1896-1902.

2.6 Stock market development.

The main concern in this thesis is low participation in SADC stock markets, in particular those established after a country got independence from the colonial power. The number of companies listed in the stock market (Table 2.3), market capitalisation ratio (Table 2.4) and the turnover ratio (Table 2.5), which are standard indicators of the level of stock market development and size, are used as proxies indicating the levels of participation in SADC stock markets. Market capitalisation ratio is the total value of listed companies for a year divided by the GDP for the same period. Turnover ratio is the total value of shares traded for each year divided by the market capitalisation for the same period. The turnover ratio is defined as the total value of traded shares in a year divided by the total value of shares listed in the stock market, the market capitalisation. The low and middle-income countries' averages for market capitalisation and turnover ratios are used as benchmarks, mainly because SADC countries are categorised within the two country income classifications by the World Bank. Indicators used as benchmarks were obtained from the World Bank's World Development Indicators for each year. The turnover ratio is not available for all the years under review.

The number of companies listed in the South African Alternative Exchange, obtained from the South African Stock Exchange website, is used as a benchmark for the small regional stock markets because of lack of any other appropriate benchmark. SADC stock market development indicators described in this section are obtained from domestic stock exchanges. In addition, other sources such as the United Nations Development Programme's African Stock Markets handbook 2003 and African Securities Exchanges Association (ASEA) yearbook 2006 are used, particularly for Zimbabwe, where data could not be accessed through the domestic stock market. Mozambique is excluded because of lack of data.

By all standard measures, post independence SADC stock markets are relatively small and illiquid. Based on the Standard and Poor's emerging markets classification, only South Africa and Zimbabwe stock markets qualify as emerging markets because of their size and liquidity. Botswana, Mauritius and Namibia are categorised as frontier markets, which is a sub-set of the emerging markets for small and illiquid stock markets. Other SADC stock markets were not classified, presumably because of their small size.

With the exception of Mauritius, the current number of listed companies in the post-independence stock markets is low, even when compared to the number of companies listed in the South African Alternative Exchange (Table 2.3). The alternative exchange was established in 2003 for small to medium companies that are not yet able to lists on the main board. Growth in terms of the number of companies listing in SADC stock markets is relatively low. For the ten years in which data is available for most exchanges, on average, less than one company list annually on each SADC stock market. This includes even those countries were stock markets were established partly to facilitate privatisation of government-owned enterprises. Although the number of companies in the South African stock market is constantly declining, it is remains relatively high, followed by Zimbabwe and Mauritius.

The wealth invested in a post-independence stock market as measured by the market capitalisation ratio is low, even when compared to the average for the low and middle-income countries. For the pre-independence, South Africa and Zimbabwe, the national wealth invested in the stock market is significantly higher than an average low and middle-income country, which indicates a relatively high preference for the financial assets.

In general, the proportion of the national wealth invested in the stock market that is being traded or turned over per a year is relatively small (Table 2.5). Although the turnover ratio for the pre-independence stock markets, in particular South Africa, is by regional standards relatively high, when compared to an average turnover ratio for the low and middle-income countries, is relatively low.

This thesis argues that this significant disparity in stock market development indicators between the pre- and post-independence SADC stock markets is related to the variations in the prevailing property rights regimes between countries that established stock markets in pre-independence and those that established stock markets after a country gained independence from the colonial power. An example of such variations, which is analysed in detail in Chapter 7, is the motivation for establishing a stock market. Evidence suggests that, in contrast to the post-independence stock markets that are either imposed by external organisations or established by the government, the main motivating factor for the pre-independence ones is the demand for capital by the European settlers. The argument here is that the variations in the motivating factors for the establishment of SADC stock markets reflects the variations in the nature of property rights regimes. Thus, the nature of property rights regime in a country and the motivating factor for the establishment of stock market may be related to the level of participation in the domestic stock market. This argument is supported by the case of Mauritius, which has a slightly different institutional background from other SADC countries and relatively high companies listed compared to other post independence stock markets.

Table 2.3: The number of listed companies

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Botswana	12	14	15	16	16	18	19	18	19	19
Malawi	3	6	6	7	7	8	8	8	9	8
Mauritius	42	42	43	42	40	40	39	40	41	41
Namibia	12	15	14	14	14	12	11	9	9	9
South Africa	642	643	644	592	519	450	426	394	373	364
Swaziland	4	5	6	6	5	5	5	6	6	6
Tanzania				4	4	5	6	5	6	6
Zambia	7	9	9	9	9	10	11	12	13	15
Zimbabwe	64	67	70	69	72	77	80	79	79	80
South Africa: Alternative Exchange								10	15	37

Sources: Domestic stock exchanges; United Nations Development Programme's (UNDP) African Stock Markets handbook 2003 and African Securities Exchanges Association (ASEA) yearbook 2006.

Table 2.4: Market capitalisation ratio

	1999	2000	2001	2002	2003	2004	2005	2006
Botswana	20	17	31	29	26	27	32	46
Malawi	9	11	8	7	6	9	15	35
Mauritius	38	29	23	28	35	38	42	55
Namibia	21	10	7	5	6	6	7	9
South Africa	199	168	174	136	142	184	233	300
Swaziland	7	6	14	10	8	8	7	8
Tanzania	2	3	4	6	7	7	19	19
Zambia	10	10	7	7	17	30	26	33
Zimbabwe	42	30	62	65	88	40	71	378
Low and Middle Income countries	39	36	33	30	40	43	49	73

Sources: Domestic stock exchanges; United Nations Development Programme's (UNDP) African Stock Markets handbook 2003 and African Securities Exchanges Association (ASEA) yearbook 2006. World Development Indicators (WDI) for various years.

Table 2.5: Turnover ratio

	1999	2000	2001	2002	2003	2004	2005	2006
Botswana	3.6	4.8	4.5	3.7	4.3	1.9	1.7	1.7
Malawi	3.7	4.9	13.8	2.6	7.9	3.7	3.1	2.3
Mauritius	4.7	5.5	10.2	4.5	5.8	4.2	5.7	5.1
Namibia	3.5	6.3	3.5	0.8	0.9	5.1	1.3	3.2
South Africa	27.7	34.6	34.2	51.0	42.1	40.2	35.7	42.1
Swaziland	0.2	0.3	6.7	0.1	0.0	0.0	0.0	0.0
Tanzania	3.9	17.2	1.8	3.4	2.9	3.6	0.6	0.7
Zambia	4.3	2.6	19.6	1.0	1.4	0.4	0.8	0.7
Zimbabwe	9.0	11.5	19.2	1.1	2.0	7.2	13.8	3.4
Low and Middle Income countries		81.4				72.4	37.1	

Sources: Domestic stock exchanges; United Nations Development Programme's (UNDP) African Stock Markets handbook 2003 and African Securities Exchanges Association (ASEA) yearbook 2006. World Development Indicators (WDI) for various years.

2.7 Conclusion

This chapter critically examined the SADC policies, objectives and strategies with regard to stock markets. Although SADC policy does not necessarily encourage member states to establish local stock markets, the potential role for financial and monetary integration may be a motivating factor for each country to have one. While stock markets integration would potentially mitigate their small size, there are some institutional barriers. For example, it appears that stock markets are more national identities than economic organisations. The overemphasis on international standards and regulatory framework may obscure the critical impediments to participation in stock markets.

There is, based on the stock market evolutionary process and the level of participation in SADC stock markets, a distinct variation between the stock markets established by the European settlers before a country gained independence and those that were established after a country has gained independence from the colonial power. This provides an incentive to examine the commonalities between the post- independence establishments and how they vary with the pre-independence ones and how these factors explain the low participation prevalent in the post independence ones.

Chapter 3 Theoretical Framework

3.1 Introduction

The purpose of this thesis is to explain the low participation levels in SADC stock markets. The thesis argues that low participation in SADC stock markets is a consequence of the devolved property rights institutional environment. Key influential elements are the nature of property rights regimes, their development processes and the related levels of industrialisation. Against this background, this chapter identifies the theoretical framework in which these key factors explain low participation in the stock market. The theoretical framework is further developed in Chapters 4 and 5.

To understand how these factors are likely to impede participation in the stock market, the thesis draws relevant aspects from: (1) the economic development, comparative markets and governance literature with regard to the development and incentives for the establishment of the stock markets; (2) property rights literature, which defines the nature of rights, their protections and enforcements, and their development processes, including the related consequential effects, which the thesis relates to participation in stock market; and (3) the path dependence literature that provides for the explanation of the current institutional outcomes from their historical and contemporary developmental context.

Property rights regimes refer to the types or nature of property rights or of property rights in the society. This includes the types of ownership rights attached to an economic resource, which reflects the cultural values of the society, and the nature and degrees of protection and enforcement of property rights within the society. Production activities and the industrial development facilitate the demand for long-term capital and in turn participation in the stock market (Pontecorvo 1958:561). It is argued in this thesis that the variations in these factors are likely to concur with the variations in participation in stock markets among SADC countries.

Development of property rights refers to an institutional process of transforming the nature of property rights from one form or tradition to the other. Its significance in this thesis stems from the probability of the institutional conflict inherent in the transformation processes (Feder and Feeny 1991) dominating the nature of institutions in SADC countries. Where institutional conflicts are prevalent, it is likely that they will shape the institutional environment in which stock markets operate. Institutional conflicts create uncertainties in the economic environment. Uncertainties in the economic environment do not encourage investors and entrepreneurs to save and invest long-term, and exchange their property rights to increase production. This impedes the development and participation in the stock market.

Participation in stock markets involves entrepreneurs and investors exchanging property rights. For this purpose, corporations are special vessels that are essential for participation in the stock market. They are created as special entities to govern property rights that are traded by entrepreneurs to raise capital from investors in the primary share market by listing firms and among investors in the secondary market. Corporations emerged mainly in response to the growing demand for capital, which could not be met through other organisational forms such as partnership (Ekelund and Tollison 1980: 716). This explains their importance in relation to participation in the stock market. The size of the firm, which is determined largely by the availability of business prospects and financial capital that enables it to finance additional projects and growth, is critical for its listing on the stock market.

Entrepreneurs participate in the stock markets by exchanging property rights in the form of equitable interests in a firm's aggregate projects for financial capital needed to finance projects and the firm's growth. Thus, the incentive for entrepreneurial participation is the demand for long-term financial capital, which is conditional on the availability of business prospects (Pardy 1992). Entrepreneurs' participation in the stock market reflects: (1) their perceived benefit of raising capital through the stock market, and the availability and the cost of capital; and (2) their perceived cost associated with the reduced control of the firm, which is partly influenced by the nature of relevant property rights regime. It is argued that, where the law do not adequately protect investors' rights entrepreneurs may prefer to keep control of their firm (La Porta et al. 2000:13) in fear of being expropriated in the event they lose control of the firm (La Porta et al. 1999:473). High ownership concentration has implications for the degree of participation and development of the stock market.

Investors participate directly through the primary share market, in which they finance entrepreneurial initiatives through the stock market in exchange for shares in companies, and through the secondary market in which they trade issued shares with other investors. Investors' participation in the stock market reflects their willingness to hold their wealth in financial assets and their ability to participate, which is determined by the availability of savings (Morgan and Thomas 1962:11). Their decision to participate is largely a function of the: (1) expected returns on their investment; and (2) the perceived levels of risk, including the risk of expropriation by insiders or large shareholders. The perceived level of risk depends on the nature of property rights regime, in particular the extent to which the regime protects and enforces property rights.

It is an acceptable tenet in the comparative markets and governance literature that property rights institutions shape the institutional environment in which stock markets operate, which in turn determine the level of economic and stock market outcomes, and consequently participation in the stock market. This literature, in particular, the law and finance, emphasise the role of property rights institutions in the protection of the interests of investors and creditors. The basis for this perspective is that, private contracting for shareholders and creditors at the company level is complex and expensive. Market conditions are not sufficient on their own. Therefore, statutory provisions that offer and enforce investor protection are essential to enhance efficiency in the market (La Porta et al. 2008:310). It is argued that adequate protection and the enforcement of the investors' rights: (1) motivate them to finance firms at lower cost, which enhances the role of the firm in the allocation of economic resources (Johnson et al. 2002; Classens and Laeven 2003); (2) it provides incentives for entrepreneurs and investors to exchange property rights. These factors, in turn, promote the development and participation in the stock market (La Porta et al. 1998; 1998; 2000; 2008).

However, while the perspective of the comparative markets and governance literature informs the approach in this thesis, it is the contention in this study that it does not adequately explain the peculiarities and institutional complexities that characterise the environment in which SADC stock market operate. Therefore, the framework based solely on this literature is unlikely to explain the low participation in SADC stock markets. As argued in Chapter 1, this literature seem to have influenced the approach towards the development of stock markets in which greater emphasis is placed on demand and less on the supply channel of participation in the stock market. This thesis argues that the approach is likely to obscure the critical impediments to participation in stock markets.

While it is correct, as the comparative markets and governance literature suggests, that institutions were transplanting across the world (including SADC countries) through colonialism, the assumption that the pre-existing institutions adapted to the new political order (La Porta et al. 2008) is not consistent with the institutional path dependence for SADC countries. Imposed legal systems do not always supersede cultural disposition or indigenous institutions. The SADC countries are appropriate examples in this regard. As discussed in Chapter 5, traditional institutions in SADC countries did not adapt to the imposed political order, rather, although they could not stop the changes they continually resisted the colonial rule. South Africa is probably the only SADC country in which traditional institutions were alienated and replaced by the European traditions. In some SADC countries traditional institutions re-emerged at a country's independence from the colonial rule (Southall 1974; Englebert 2000; Tsie 1996), which suggests that they did not only coexist but also retained their values and continued to influence the behaviour and choices in the society. These countries also continue to have high communal ownership of land, which suggests low influence of the Western traditions of private ownership and the dominance of traditional values of communal ownership on the nature of institutions.

Where traditional institutions persisted, their underlying cultural values, rather than the Western property rights traditions, are more likely to dominate the nature of property rights, and consequently influence the economic and stock market outcomes.

In the other grouping of SADC countries, the colonial legacy of institutional conflict continually dominates the nature of institutions or property rights regimes, further indicating that traditional institutions did not adapt to the imposed system. Institutional conflicts suggest incongruence between the components of the institutional structure of the society. Similarly, communal ownership in this group of countries is comparatively high.

The persisting dominance of the communal ownership culture in some SADC countries suggests a conflict between the components of the institutional structure of the society. While the political order defines private ownership, traditions of communal ownership continued to influence the nature of ownership of assets. Under these circumstances, the assumption of harmony among the components of the social structure is also not consistent with the institutional path dependence of SADC countries. Where institutional conflicts abound, the extent of conflict, rather than the attributes of transplanted institutions may largely determine the economic outcomes. Institutional conflicts create uncertainties that deter long-term investment, innovation and productive use of economic resources, which are essential to enhance economic output and participation in stock markets.

This background suggests that the nature of the prevailing property rights regimes and their development processes are likely to have an impact on the economic and stock market outcomes. Thus, the impact of property rights on the economic and stock market outcomes cannot be limited solely to the effects of property rights institutions. Limiting the role of property rights in this context is likely to obscure the nature and the extent of institutional impediments to the development and participation in stock markets. Therefore, understanding the effects of property rights on the environment in which SADC stock markets operate necessitates that they be considered within the overall structure of the society and relates them to their historical and contemporary development processes. These factors are examined in Chapter 5.

Further, this thesis argues that, by emphasising the legal protection of investors as the main incentive for both investors and entrepreneurs to exchange their property rights and participate in the stock markets, the comparative markets and governance literature presupposes that the necessary conditions for capital formation and industrialisation are met. In this thesis, I refute the position. It does not reflect the current economic environment in SADC countries. The effect of the nature of the prevailing property rights regimes and their development processes on the industrial development in SADC countries is examined in Chapter 6. The consequential effects on participation in domestic stock markets are examined in Chapter 7.

It is argued in this thesis that this background necessitates the re-interpretation of the well-accepted comparative markets and governance theoretical framework to contextualise the role of property rights with regard to the development and participation in SADC stock markets. To achieve this, the theoretical framework, in which the nature of the prevailing property rights regimes, their development processes and related aggregate levels of industrialisation explain the levels of participation, is considered appropriate. Thus, the key elements in the proposed framework is the nature of the prevailing property rights regimes and their related economic factors, in particular, the levels of industrial development, which determines the demand for long-term capital, and the supply of capital, emphasising the levels of savings and distribution of income.

The nature of institutional environment in SADC countries also necessitates that the adopted framework incorporates property rights into the overall institutional structure of the society and the economy, which comprises; (1) the political order; (2) institutional arrangements; and (3) cultural value systems (Feder and Feeny 1991:136). Political order refers to the role of government or the state in defining and enforcing property rights. Institutional arrangements include property rights institutions, which regulate the behaviour in society, and economic organisations such as corporations and stock markets. Property rights economic organisations are used to manage and exchange property rights. Cultural values are the traditions and norms that influence the behaviour, including economic choices in the society. Each of these components of the institutional structure is underpinned by the traditions or cultural values of the society. That is, they reflect the cultural values of the society.

This chapter is arranged as follows. Section 3.2 describes relevant aspects of property rights, which includes the concepts of property right, property rights institutions and the development processes. It also presents the two resultant property rights models. In section 3.3, the chapter describes the roles of the state in property rights. The role of cultural value systems or culture is examined in section 3.4. Section 3.5 describes the path dependence and its relevance to the thesis. For purposes of clarity and better understanding of the analysis in thesis, section 3.6 describes the outcomes examined in the thesis and their measures. Section 3.7 concludes the chapter.

3.2 Property rights, concepts and definitions

The literature regarding the role of property rights in the allocation and utilisation of economic resources is vast and diverse. This section discusses the relevant property rights concepts and highlights their critical roles and effects with regard to participation in the stock markets. Property rights concepts relevant for purposes of this thesis are interrelated, their roles and effects in relation to participation in stock markets largely overlap.

3.2.1 The concept of property rights

Property rights refers to the right of ownership, which determines who has to make decisions regarding the use of the resource. Pivotal to the concept of property rights is the exclusive ownership rights to the use and utilisation of the economic resource. Property gives the owner the legal right to exclude others, including the state from the exercising of the acquired claim to a resource.

Generally, questions on property rights revolve around ownership and the nature of rights attached to a resource rather than on the physical property itself. Reed’s (2004:469) view is that property is synonymous with ownership. Although property as a concept is somewhat complex and subject to different conceptualisation, there is a consensus that property is not the same as a “thing” Rather, it is more about the exclusive right to ownership (Reed 2004:459). The ownership of property creates a right to the economic resource, which includes the ability to sell, exchange, exploit, change both the form and the substance, possess and to earn a return from ownership of the right to property. The ownership rights are exclusive and only limited by the explicit restrictions prescribed by the laws, rules, and norms of the society and subject to the rights of others (Furubotn and Pejovich 1972:1140; Reed 2004:491-492). The characteristic features of property that facilitates its effective use include tradability and transferability of the rights to property owned, including the enforceability of property rights exchange contracts. In a market, the incentive to exchange property is not the physical item but the value of the rights attached to it (Demsetz 1967:347).

Prasad (2003:742) argues that, "property rights are also related to the broader questions of economic growth, democracy and political and economic freedom of individuals…" In this regard, North (1991:97) provides a holistic institutional property rights definition that informs the conceptualisation of property rights in this thesis.

> Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and code of conduct), and formal rules (constitutions, laws property rights. Throughout history, institutions have been devised by human beings to create order and reduce uncertainty in exchange. Together with the standard constraints of economics they define the choice set and therefore determine transaction and production costs and hence the profitability and feasibility of engaging in economic activity. They evolve incrementally, connecting the past with the present and the future; history in consequence is largely a story of institutional evolution in which the historical performance of economies can only be understood as a part of sequential story. Institutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline (North 1991:97).

3.2.1.1 The role of property rights

Property rights provide individuals with some degree of security. In doing so, they play an important role in reducing uncertainties and creating a stable economic environment in which exchange can take place (Richard and Michael 1990; Leblang 1996:7; Prasad 2003:750). The extent to which property rights are defined and enforced by the state determines the degree of certainty, which provides incentives for individuals to defer consumption now (Leblang 1996:7), invest long-term, and take an innovative initiative that increases production and enhances industrial development. As discussed earlier, the degree of industrial development gives an indication of the levels of demand for capital, which facilitates participation in the stock market.

> A capital market entails security of property rights over time and will simply not evolve where political rulers can arbitrary seize assets or radically alter their value. Establishing a credible commitment to secure property rights over time requires either a ruler who exercises forebearance and restraint in using coercive force, or the shackling of the ruler's power to prevent arbitrary seizure of assets (North 1991:101).

Property rights reduce the risks by providing some constraints on the behaviour of others towards the ownership and utilisation of rights and by defining the parameters on which production and exchange of property rights could take place (Leblang 1996:7; Saleh 2004:3).

3.2.2 Ownership of property rights

The ownership rights have implications for motivation of an individual to effectively utilise a resource (Demsetz 1967; Alchian and Demsetz 1973) towards increasing production, which facilitates industrial development and in turn participation in the stock markets. This section discusses the alternative methods of property rights ownership and highlights their implications in relation to participation in the stock market. Although the focus of the thesis is on private and communal ownership methods, other forms are discussed, mainly to show the variations of property rights ownership methods. Besides their significance in the economic literature, communal and private ownership methods are emphasised in this thesis because they reflect the variations in underlying traditional values of the societies referred to in this thesis as the agents of change, the indigenous Africans societies and the European settlers.

As discussed earlier, the position of the neoclassical economic theory is that, the nature of rights the society attaches to the ownership of economic resource determines the structure of incentives for individuals to exert the effort and invest long-term to increase production. In the context of this theory, property rights choices determine the incentives for individuals to utilise economic resources to maximise production and hence personal returns. It is agreed in the economic literature that, “in every system of exchange, economic actors have an incentive to invest their time, resources, and energy in knowledge and skills that will improve their material status” (North 1991:102).

At a micro level, the concern for the nature of ownership rights attached to an economic resource is the extent to which the right enables the entrepreneur to use property rights as collateral to reduce the cost of additional capital. The use of property rights as a collateral depends on whether property rights are alienated or not. Unless property rights are alienated and thus tradable, they may not be used as collateral. This will limit the extent to which firms could use land, which is the main immovable asset, to acquire additional capital in the form of a loan at a lower cost to finance business expansion and firm growth. The consequences of this are small sized firms, low industrial development, and in turn low participation in the stock market. In line with this proposition, countries that have dominant communal ownership are expected to have relatively low industrial development, low involvement of the private sector in the economy and generally low participation in the domestic stock markets than those with dominant private ownership culture.

Thus, the economic outcomes, in particular the aggregate levels of industrialisation and the related stock market outcomes in SADC countries, are likely to vary according to the variations between the underlying cultural values of the society with control rights over the ownership and utilisation of economic resources in a country.

It is generally agreed that the prevalent private ownership model of property rights reflects the traditions of the Western nations. As such, this thesis adopts this position and does not attempt to establish the fact. With regard to the indigenous communities in SADC countries, although it is equally generally agreed that their ownership traditions are predominantly of communal nature, their ownership culture either has been transformed or is going through a transition towards private ownership. The extent of the transformation of property rights, their processes and the implications for the nature of institutions is examined in Chapter 5. To be able to identify the aspect of the traditional institutional structure that has changed and those attributes that are persisting, and the extent and nature of transformations, I describe the pre-existing institutional structure of the indigenous communities, including their ownership culture in Chapter 4. This chapter highlights the cultural attributes that do not only persist but also continually influence economic decisions and choices. The effect of the dominant property ownership culture on the economic outcomes is examined in Chapter 6, while Chapter 7 focuses on the effects on stock market outcomes.

3.2.2.1 Communal ownership rights

Communal property ownership rights simply means that the rights attached to property are exclusive but to the identified members of the community or group. Access and control of the communally owned asset is restricted to members of the community or a group with the exclusion of all non-members (Demsetz 1967:354-356). The general view of the economic theory of property rights is that communal ownership is an inefficient institutional arrangement. It does not promote effective use of property rights because of its inability to concentrate the costs and benefits on the owners. An individual member of the exclusive group has the right to use property in which the benefits are disproportional to the costs. Where the ownership right gives the holder more benefits than the proportional allocated costs, the incentive for an individual to use economic resources effectively to increase production is low. Rather, the holder is likely to overuse the resource (Demsetz 1967:354). It is also argued that, by failing to exclude potential users, communal ownership increases the transaction costs, which does not encourage efficiency in the utilisation of economic resources (Alchian and Demsetz 1973:22).

In contrast, Quiggin (1988:1073-74) argues that the neoclassical economists perspective of communal ownership is erroneous in both the formal legal systems such as "Anglo-Saxon common law, the German land law, the Roman law and their successors" and the "informal institutional arrangements based on custom, tradition, kinship…". Communal ownership as defined and established in these codes is not the same as an open access as the neoclassical economists suggest. An open access property means that everybody has equal right to property while communal property right is exclusive. Common ownership excludes all those that are not identified as members of the community or group. Failure to recognise this difference according to Quiggin (1988:1073) is a consequence of the neoclassical economists' emphasis on private ownership as a necessary precondition for efficiency in the utilisation of economic resources. Quiggin's (1988:1081) argument is that communal property rights would be equally effective in promoting efficient use of resources provided that essential conditions such as enforceability of rights against non-owners, the establishment of mechanisms to prevent abuse by owners and a clearly defined operational framework are met.

Communal property rights structure according to Quiggin (1988:1082) can serve developing economies better because it tends to be flexible in its response to institutional changes, more so than a private property-focused structure. This is in addition to the ability of communal ownership structure to reduce conflicts and its capacity to promote interaction within the society (Quiggin 1988:1081). Quiggin (1988:1080) suggests that the criterion for a successful operational property rights structure should be the ability of the structure to create institutional harmony in the society. Institutional harmony would be achievable where "divergence in type and quantity of rights between individuals are minimised" (Quiggin 1988:1081).

3.2.2.2 Private ownership right

The general assumption is that different methods under which property rights are held create a different set of incentives. This presumption further supposes that each of such methods has a deterministic economic outcome based on its ability to motivate individuals to defer consumption and utilise resources to increase production. Private ownership right, which is a Western form of property ownership culture, is said to provide greater incentives for productive utilisation of economic resource (Demsetz 1967:534-356; Alchian and Demsetz 1973:18). The argument for private ownership rights is that it allows individuals to internalise the costs and benefits (Alchian and Demsetz 1973:22).

The concept of private ownership has become almost synonymous with the concept of property in capital markets. The creation and protection of private ownership rights has become an international competitive strategy and a marketing tool around the world, such that the higher the level of private property protection, the higher a countries competitiveness, globally. A country's global competitiveness is critical for its economic survival since economic resources have become mobile globally.

3.2.2.3 Usufructs rights

Usufructs rights allow use and derivation of value without holding the corresponding ownership right (Goldie 1985:692; Saleh 2004:11). This means that the holder of property can use it at the exclusion of others but has no right to sell or destroy the asset. This concept existed in most communities and has legal meaning under both the Roman Dutch Law and Common Law (Goldie 1985:692). The significance of the usufructs rights according to Saleh (2004:11) is that, they provide for segmentation of the rights to a resource, initially held under communal ownership. This reduces or minimises the externalities associated with communal ownership. Saleh (2004) argues that under the usufructs ownership arrangement, many externalities associated with communal ownership are internalised. Although the usufructs rights cannot be traded, as they do not transfer ownership rights, the parameters under which the ownership rights could be exercised are defined. This will enhance effectiveness in the utilisation of economic resources, while at the same time sustaining a relative degree of harmony in the institutional structure of society.

While the neoclassical economists would see the lack of transferability at a market price as a source of inefficiency, Saleh (2004:11) suggests that there are particular economic circumstances under which usufruct system would be preferable over private ownership. This is where land is plentiful and unlikely to be depleted through use. A usufruct ownership system would also be effective over private ownership in cases where chances of the asset been transformed or exploited are limited.

3.2.2.4 State ownership rights

Like individuals and groups, the state may own the right to productive resources. However, because of its multiple political and social roles in the society, the state has to specify how the controlled rights are distributed. For instance, the state will need to specifically mention who is excluded from using the state property, and who is not (Demsetz 1967:354). The view of the classical economic theory is that government ownership of economic assets should be limited. This theory emphasise greater private ownership of productive resources and the supply of goods and services while the government is expected to complement the private sector by producing those goods and services that may not be optimally produced by the private sector (Saleh 2004:4).

However, Reed (2004:467) observes that limited state intervention through a regulatory process is unavoidable even in those economies that are driven by private ownership of economic resources. An example here is the dominance of government ownership of productive assets in Europe in the post-war 1940s. Shleifer (1998:135) interprets this as a natural response to a market and regulatory failure following the great economic depression. In contrast, in sub-Saharan Africa, government ownership became popular after independence from colonial rule in the 1960s, as part of the indigenisation of economic resources to consolidate the newly acquired political power.

Critics of government ownership and its involvement in productive industries have argued that its involvement suppresses the effectiveness and efficiency of the private sector. According to Shleifer (1998:137-142), government ownership creates inefficiency in use of resources, mainly because of lack of incentive to innovate and effectively reduce costs. The argument is that since government employees who control the use of resources have no ownership rights, they have no incentive to make additional investment to reduce costs and improve quality through creativity and innovation. Their level of efficiency is limited to their proportional return.

Government ownership may also create inefficiency in the use of economic assets by suppressing market allocation and allocating resources to satisfy a political agenda (Shleifer 1998:141-142).

3.3 Components of the institutional structure of the society

This thesis argues that because of the peculiarities and complexities of elements of property rights that influence the institutional environment in which SADC stock markets operate, the role of property rights can better be understood when considered within the overall structure of the society. The components of this structure as described earlier comprises: the political order, which is the role of the state; the societies' institutional arrangements, which includes property rights, property rights institutions, and economic organisations or contractual arrangements such as firms and stock markets; and the cultural values of the society. This section discusses the role of each component of the institutional structure of the society and the economy with respect to property rights and the implications for participation in the stock market.

Institutional arrangements reflect the cultural values of the society and are useful mechanisms in relation to the effective use of economic resources. Because of the complexities of production activities and the sophistication associated with large contracts, property rights economic organisations such as the firm and the stock market emerged to facilitate the management of property rights contracts between factors of production and to facilitate the exchange of property rights at lower costs. These organisations facilitate production and trade or exchange contractual agreements, which Furubotn and Pejovich (1972:1139) suggest exists mainly to facilitate the exchange of bundles of property rights and not so much to accomplish the exchange of goods and services. These contractual arrangements are coordinated and managed by a group of professionals, the management, through the firm. The management, among various other channels, raise capital from the stock market through the firm, and use it through the firm to finance additional products that increase production and firm growth. For purposes of accountability, the management acquire fiduciary responsibilities towards the owners of the firms regarding the use of capital.

3.3.1 The role of the state

Besides the provision of public goods, economic theory prescribes the role of the state as that of defining, securing and enforcing rules that regulate production and exchange and facilitate the allocation of resources (Quiggin 1988:1075; Reed 2004:486). By defining and enforcing property rights, the state creates stability and certainty essential for the effective allocation and utilisation of economic resources. Thus, the extent to which the state defines, secures and enforces property rights determines the level of production and the general productivity in a nation’s economy (Saleh 2004). The nature of the political regime determines the extent to which private property is protected. Leblang (1996:6-7) find that the political regime influence economic growth through its commitment to protecting property rights and that democratic nations protected private property more than non-democracies.

In this thesis, the extent to which the state protects property rights is examined in Chapter 5, emphasising the quality of institutions with the regard to the political freedoms, property rights protections and the levels of perceived corruption in a country. Chapter 5 also relates the quality of contemporary institutions to historical and contemporary development path dependence. The effect of the protections on economic outcomes is examined in Chapter 6, while Chapter 7 focuses on the effect on stock market outcomes.

3.3.2 Property rights institutions

Property rights institutions are defined as the society's rules, laws, customs, traditions, contracts, and conversions that govern the behaviour in society. The instruments may be formal as in codified laws or informal in the instance of traditions, rules, and customs (Demsetz 1967:347; Joirema 2001:2; Saleh 2004:9). The role of property rights institutions is within the context of the society (Reed 2004:498). That is, they exist within the institutional structure of the society. Their function and purposes are to meet the needs of the society. Theoretically, property rights institutions reflect the aspirations, preferences and choices in the society. As Joirema (2001:2) suggests to the extent that property rights institutions govern the behaviour in the society, they should therefore influence their economic decisions.

3.3.3 The role of the firm

The economic history of the firm links the demand and supply of the corporate form of the firm with the emergence of capital markets. This theory suggests that the corporate form evolved in response to the increased demand for substantial financial capital by the long-haul ancient foreign traders to finance the business expansion and infrastructure essential to sustain their foreign trade. The growing demand for capital could not be met by an individual or partnership arrangement (Ekelund and Tollison 1980:716). This necessitated the formation of an organisational structure to overcome business hurdles created by lack of property rights markets and economic challenges associated with partnership form of doing business. Thus, the "legal form of business organisation" emerged on demand to allow entrepreneurs to raise additional capital by trading their property rights (Ekelund and Tollison 1980:17). In turn, this facilitates capital markets development and growth. As stated in Chapter 1, firms are important instruments that are used by entrepreneurs to raise finance through the stock market by selling shares in the primary markets. This in turn creates a secondary market where shares are trading between investors. Stock market development is largely driven by participation by both the firm and investors.

The use of the firm to coordinate or manage various factors of production seemingly in contrast to the neoclassical economic theory precept of an open market price as an effective guide for efficient allocation of resources is because transaction are not free

(Coase 1937). Thus, the exchange transactions coordinated through the market price to direct production have a cost. Therefore, the rationale for central planning and coordinated factors of production in a market economy must be to reducing the transaction cost (Coase 1937:390-392). The objective for coordinating factors of production in a market economy through a firm is aimed at reducing the number of transactions that would otherwise have had to be undertaken in the market each time production or exchange has to take place. Since transactions involve costs, the higher the number of transactions the higher the costs. By reducing the number of transactions, the coordination of factors of production through the firm reduces transaction costs. In any case, coordinating factors of production through the firm is an alternative to the market pricing system such that factors of production can still contract through the market if the benefits exceed that of centralised planning. This is possible because coordination of factors of production does not interfere with the price mechanism (Coase 1937:388; 392).

3.3.3.1 The features of the firm

While the spread of the corporate form of business around the world can be attributed to the expansion of trading activities across countries and Western political power through colonialism (Davis 1905:157), its wide acceptance as a form of doing business could be associated with its characteristic features that allow entrepreneurs to reduce the risk (Stout 2005:253). Historically, the political and economic organisational arrangements were the monozygotic twins used to facilitate the expansion of European political power and economic interest around the world. The expansion of Europe across the world through colonialism involved the export of the political and economic institutions, of which the corporation was an important vessel. Davis (1905:157) expresses this view as follows.

> There was one important element in colonialism… that was not present in establishment of mere commercial relations with foreign peoples. Whenever an English colony was planted, there was a body of English subjects to be government. The English trade with other nations of Western Europe and even with Russia and the Levant involved most prominently the establishment of international relations, whether directly through the national governments or indirectly through the medium of commercial operations; the trade with India and Africa was to involve rather the absorption of the governments of the foreign people; but the colonial trade involved an extension of the national government of England over bodies of its own subjects…

Despite the fact that corporations might have been introduced in SADC countries through colonialism, a system, which the indigenous communities largely resisted (Chapter 5), they are more likely to be accepted and widely used because of their features that allows for the reduction of risk. Schapera (1937) suggests that although the indigenous communities in this region generally resisted the colonial rule, they readily accepted the European goods because of their superiority to African products. There is a growing body of literature that suggests that the main incentive for the use of a corporation in doing business is its features that enable the sharing and reduction of risk (Blair 2003; Stout 2005; Hansmann et al. 2006). The literature emphasise the features of incorporation as the main incentives for the choice of a corporate form compared to unincorporated forms of doing business. The legal position of the firm is that once incorporated, it exists in perpetuity. It does not have a fixed terminal date. Its existence is not tied to the membership as in a partnership form. Although in practice the law establishing a corporation makes a provision and stipulates the circumstances under which it may be terminated, the intended purpose of the legislation is for this clause to be effected under exceptional special circumstances on fulfilment of essential requisites for justice to other members, particularly the minority. Those that can terminate the life of a firm include the creditor in case of insolvency or the controlling shareholder.

When creating the corporate form and giving it a perpetual life, the law intended to create a reasonable degree of certainty essential for factors of production to contract at lower cost. It is to encourage long-term investment and increase creditors' confidence. The limited liability of shareholders, where members are only liable for the liabilities of the company to the level of their investment, encourage risk-taking and prolonged funding of the company projects. Limited liability protects the personal assets of the shareholders from the liabilities of the company and rights of the company from the liabilities of the shareholders. The protection of the company assets or "to lock in investment capital" (Stout 2005:256) or "entity shielding" (Hansmann et al. 2006:2) protects the company from liabilities of equity holders and enables it to lower its borrowing costs by providing the assets as collateral. Ownership of an asset is a prerequisite for collateral against financing. Therefore, the corporate form gives the company the right to own assets separate from its owners, which enables it to contract for capital using the assets as collateral.

However, despite the limited liability feature of the corporate form, the extent to which a firm can use the assets as collateral to lower the borrowing costs depends on the nature of property rights attached to the asset. Unlike private ownership, communally owned property cannot be used as collateral. The corporate ownership does not change the nature of the asset. It simply coordinates business activities in order to reduce the transaction costs.

3.3.4 The stock market

The conceptual view of a stock market is that of an economic organisation that facilitates the interaction between the savers and consumers of finance and transforms savings into capital finance essential for economic growth and firm expansion. Previous studies have linked the development of the stock market with economic growth (Atje and Jovanovic 1993:634-635; Levine and Zervos 1998(a):538-539; Arestis et al. 2001:37; Beck and Levine 2004). The size of the stock market, which indicates the level of stock market development, is an important determinant of the extent to which the stock market is likely to be effective in allocating the economic resources. It also indicates the level of participation in a stock market.

The evolution of the modern form of the stock market can be traced back to the formation of the joint stock companies that became the main sources of traded shares. Debt instruments were supplied by both the government and business entities. The government needed funds to finance infrastructural development (Morgan and Thomas 1962:11). Stock markets evolved over a period alongside changes in other economic organisations in which they are organised to serve (Pontecorvo 1958:561). Economic environmental changes that influenced a change in the role of the stock market include a shift in the economy that altered the capital demand pattern. Modern economies are driven more by industrial more than commercial activities. Industrial activities have greater capacity to generate the demand for long-term capital (Pontecorvo 1958:561) and hence participation in stock markets.

Historically, the stock market emerged on demand to address the need for financial capital by both the government and the private sector. In its early stage, the stock market played a significant role in mobilising large financial capital needed for infrastructural development, such as the railroad that could not be provided by individuals or partnerships (Meeker 1922:67-68). The advantage of the stock market, in this regard, was its ability to pool savings from various savers and channel funds towards financing these large projects. Financing corporations through the stock market has not only enhanced corporate growth but also contributed towards industrial development by financing factory infrastructure and production expansion (Meeker 1922:14).

3.3.4.1 The requisites for establishing a stock market

Given the rapid increase and use of stock markets in the developing economies, their disparities in size and performance, and how they are established tempts us to enquire whether there are any preconditions for their establishment or success. Despite the seemingly peripheral nature of this question, some conclusions can be drawn from the literature in this regard. The literature suggests that the political environment is an important factor as it shapes the investment and business environment in a society. Political stability is an essential condition. It creates an environment conducive for long-term investment and business growth. According to Meeker (1922:3), the development of one of the large stock markets in the world, the New York Stock Exchange, was encouraged by political stability, which implies that the quality of political institutions matter for the development of stock markets.

Because of their key role in protecting the rights of individual citizens, political institutions play an important role in the development of stock markets. Political institutions create an environment conducive for long-term saving and investment, which facilitates long-term financing of firms. In turn, it promotes firm growth and industrial development. Long-term investment ensures the undertaking of company’s long-term projects that enhance its growth and business expansion. Long-term savings provides for financing of companies’ long-term projects at low cost, which encourages creativity and innovation that promotes industrial development and economic and firm growth. Leblang (1996:21) found that economic growth in those countries that protect property rights is faster than those that did not.

Further, studies suggest that prospects for the demand for and supply of capital, and the demand for and supply of company shares, are necessary conditions for establishing a stock market. The supply of shares is partly a function of the company size, while the size of the company is dependent on the business prospects, which enhance its demand for capital to finance business prospects. This cyclical economic process creates opportunities for profitable business and prospects for company growth and provides incentives for individuals to participate in the stock market. In the absence of sufficient profitable businesses prospects, Pardy (1992:2) argues that there is little reason for establishing a stock market. The supply of capital, as observed by Morgan and Thomas (1962:11) depends on the availability of savings and the willingness of savers to hold their wealth in financial assets than any other form of investment such as real estate for example.

Although there has been a substantial emphasis on the legal and regulatory framework, particularly in the case of developing countries, there is no evidence to suggest that the legal framework could be a prerequisite for the establishment of the stock market. Rather, the legislation plays a significant role in enhancing efficiency and effectiveness in the operations of the stock market. Pardy (1992:4) place the regulatory function as the second building block in the development of a stock market process.

3.3.4.2 The role of the stock market

The role of a stock market is usually defined in terms of its economic function at both the macro and micro economic level. A macroeconomic role of the stock market is to mobilise savings from various savers, convert savings into financial capital and allocate it efficiently through a price mechanism to those entrepreneurs that are able to generate higher returns (Mirowski 1981:566; Singh 1999:348-349). The extent to which the stock market would be effective in the allocation of savings as stated previously depends on the availability of savings in the economy and the willingness of the savers to channel their savings through the stock market. The incentive for entrepreneurs to use the economic resource efficiently and earn higher return for investors is the reward by the market in the form of a higher share price (Singh 1999:348). This function is an important channel through which the stock market promotes economic growth.

At a micro level, the stock market facilitates company growth by allowing the entrepreneur to access long-term finance at lower cost. The stock market provides investment opportunities for savers by enabling them to invest in company shares. By participating in the stock market, investors and companies are able to share the risks (Greenwood and Smith 1997: 146, Sharai 2004:1467). The provision of permanent capital for companies enables them to finance long-term, large and indivisible projects at a lower cost (Rousseau and Watchtel 2000:1936-37). Further, the stock market liquidity provides the opportunity for initial investors in a company to exit and for shareholders at large to liquidate their investments as and when the opportunity arises (Rousseau and Watchtel 2000:36). According to Greenwood and Smith (1997:147), it is through these interactive functions that the stock market facilitates the allocation of funds to the best users with potentially high returns.

3.3.4.3 Characteristic features of the stock market

The risk sharing feature of the stock market creates certainty and encourages firms to undertake risky but potentially high return projects, which could otherwise have been less attractive in the absence of the risk sharing mechanism (Demirguc-Kunt, and Levine, 1993:16; Sharai 2004:1467). It also enables the stock market to fund those small and riskier projects that would otherwise not have been undertaken. Similarly, stock markets provide the opportunity for small shareholders who would find it difficult to identify optimal investment opportunities by pooling their resources together and convert them into financial capital. This facility does not only provide saving opportunity for small investors but also allows funding of the firm’s long-term projects. It enables the financing of large, small and/or risky projects which banks and other financial intermediaries may be reluctant to finance.

Liquidity is an important feature of the stock market that allows smooth exchange transactions to take place. A liquid stock market attracts both foreign and domestic capital since it is easier for them to exit. This might make it easier for companies to raise capital for long-term projects. Liquidity reduces investment risk and thus lowers the cost of capital. This motivates risk taking and promotes innovation and the development of new technologies essential for efficient and effective productive capacity in the economy (Rousseau and Watchtel 2000:1936). Lack of liquidity in the stock markets discourages investor participation and may lead to self-perpetuating cyclical effects that impede the development of the stock market (Friedman and Grose, 2006:6-7).

3.3.5 The role of culture

Culture refers to customs, norms and common values or a value system that influences the attitude and choices in a society. The attitude that the society holds determines their behaviour. Culture is an integral part of the social system. It evolves with the social changes in the society (Parson 1977:639). However, compared to other components of the social structure, a cultural values system tends to be consistent over a much longer period and changes slowly (Granato et al. 1996:607; Feder and Feeney 1991:136), which makes the behavioural outcome predictable with a degree of certainty. The African culture as defined by the Commission for Africa (2005:25) "is about shared patterns of identity, how social values are transmitted and individuals are made to be part of the society and how the past interacts with the future". In the African context, the concept of culture is inclusive not only of the behavioural attitudes, but also the social relationships. Because of its all-encompassing attributes, the African culture is likely to be more entrenched and defines not only the behavioural attitude but also the way of life. Culture is preserved and inherited through generations while the cultural system binds the society and preserves their values and integrity. The rate of urbanisation is one of the indicators of a decline of the cultural values of the society because of the changes in the economic choices and preferences, and productive activities (Laidlaw and Stockwell 1979:689), which pulls individuals who are been pushed out of the rural areas into the cities by their immediate economic needs.

Although cultural values cannot on their own fully explain economic behaviour of an individual or the society, the extent to which cultural beliefs are upheld as the society's way of life, does not only determine the nature of the political and economic systems but also influences an individual's economic decision and the willingness to abide and comply. Culture influences the attitude of the society towards institutional formations and functions. As such, the outcome from these institutional formations is likely to reflect the variations in the culture underpinning the ownership of economic organisations and the utilisation of economic resources. Much as the differences in the political and economic factors are important in explaining the motivational and economic outcomes in a society, cultural differences also matter (Granato et al. 1996). For example, the variation in cultural value systems is likely to explain the failure of an otherwise efficient system that was transplanted from nation A to B where the cultural values of two nations differs.

3.4 The development of property rights

The neoclassical economic theory of property rights suggests that property rights system evolves as economic resources in the society become scarce to create private ownership rights when the benefits of the transformation exceed the costs. In general, the transition is from the traditional communal ownership, which is associated with inefficiency in the allocation and utilisation of resources towards the creation of private ownership rights. With regard to the role of property rights in the allocation and utilisation of economic resources, they emerge to internalise externalities when the benefits of internalisation exceed the associated costs (Demsetz 1967:350). New property rights emerges with the socioeconomic changes as a natural response to a change in the society's tastes and preferences influenced by the dynamics in the economic environment such as new technology and markets (Demsetz 1967:350; Quiggin 1988:1075; Saleh 2004:3). Quiggin (1988:1075) suggests that changes in property rights could also be through a consensus in which holders of the rights agree to modify or surrender their pre-existing rights in return for new ones or a payment in lieu thereof. These endogenous property rights development processes reduce uncertainties and conflicts associated with scarcity and multiple uses of resources. They also enhance cooperation and dispute resolution, which in turn promotes investment, production and exchange (Leblang 1996; Saleh 2004).

Contrary to this natural consequence evolutionary process perspective, property rights do not always evolve with or within the institutional structure of the society. In general, the changes in property rights are made through the state or government action (Furubotn and Pejovich 1972:1140). In doing so, the state may lack legitimacy, as the action may not necessarily reflect the cultural values of the society. In that case, the prescribed changes are more likely to be in conflict with the cultural or traditional value systems of the society. For instance, the property rights development path dependence for SADC countries discussed in Chapter 5 shows that property rights transitions, both, during colonial and postcolonial rule are either imposed or influenced by external institutional powers. Saleh (2004) suggests that there are circumstances under which the natural evolutionary process might have to be suppressed by imposing new property rights system "to promote a certain distribution of power and wealth" (Saleh 2004:5). The downside of imposing a new system on the pre-existing one is that, it is likely to create negative externalities in form of institutional conflicts or disharmony in the institutional structure of the society (Quiggin 1988:1080).

An incongruence or disharmony in the instructional structure of the society would create uncertainties and risks that do not encourage innovation and creativity, and long-term investment that are necessary for industrial development and consequently participation in stock markets. This type of institutional conflict, which is likely in the case of SADC countries, will further exacerbate the conflict inherent in the developing countries' institutional structures. Feder and Feeney (1991:136) suggest that, in developing countries where the components of the social institutions are going through transformation, they are prone to conflicts.

Based on this contrast, there are three possible outcomes consequential to the development of property rights process. Firstly, the process may succeed to internalise the externalities, and thus providing greater incentives for individuals to exert an effort and increase production. Where the internalisation of costs and benefits has been achieved, the associated economies of scale would further enhance production and lower costs. Increased production facilitates the demand for capital and in turn participation in the stock market. As such, stock market development and participation in those countries where the transformation of property rights helped to internalise the externalities associated with communal ownership are likely to thrive.

The second possible property rights development outcome, which is highly likely where the changes are imposed and the traditional institutions did not adapt to the new order is the institutional conflicts. That is, the transformation processes may instead of internalising, create negative externalities in the form on institutional conflicts. The effect of which is the increased uncertainties and the transaction costs associated with the allocation and utilisation of economic resources. As discussed previously, an uncertain institutional environment does not provide incentives for innovation, creativity and long-term saving and investment that are essential for increased production, which facilitates the demand for capital and in turn participation in the stock market. Consequently, this will impede the development and participation in the stock markets.

Thirdly, if property rights develop to internalise externalities when the benefits of internationalisation exceed the cost of internalisation (Demsetz 1967:350), then there should be circumstances where there are less incentives to develop property rights. In such circumstances, traditional institutions are likely to continue to influence the allocation and utilisation of economic resources. Stock markets established under this condition are likely to stagnate partly because of high preference for traditional assets more than financial assets, which is associated with dominant communal ownership of economic resources. Communal ownership does not encourage effective utilisation of economic resources towards increased production. This will impede industrial development and in turn participation in the stock market.

3.4.1 Property rights development model

This thesis argues that the development of property rights processes shape the institutional environment in which stock markets operates. Although each component of the social structure of the society has specific role with regard the operation of the property rights structure, they are highly integrated. In this section, the thesis describes how the components of institutional structure of the society interact and interrelate (Figure 3.1). It discusses the alternative interrelations given the nature of the transformation process and predicts the nature of influence on the emergent or current institutions and the consequential effect on the society’s preferences and choices with regard the ownership and utilisation of economic resources, and in turn participation in the stock market. This is illustrated by Figure 3.2. Most of the property rights concepts described earlier in this chapter are reiterated in this section for clarity and better understanding of the processes and the effects. Property rights models described in this section derive from the economic literature on property rights as discussed and acknowledged in various sections in this chapter.

As discussed, political order refers to the role of the government or state in defining and enforcing property rights. The state defines economic choices that individuals have on economic resources and determines who has to make decisions with regard to allocation and utilisation of economic resources. It prescribes property rights institutions, which are laws, regulations and contracts. These include property rights organisations such as the firm and stock market that are used to manage and exchange property rights to enhance production and facilitate participation in stock markets.

Property rights institutions regulate the behaviour in the society. Their legitimacy in doing so is derived from the cultural values of the society. That is, the role of property rights institutions is within the context of the society and reflects their traditional or value systems. Reed (2004:467) suggests that “state institutions that are not based on the societal values are bound to fail, or only strong, nondemocratic coercion can maintain them.” Cultural value systems influence the attitude, which determines the behaviour in the society (Parson 1977), including economic decisions and choices. Therefore, the preference and the choice of the property rights regime with regard to the ownership and utilisation of the economic resources will greatly be influenced by the societies’ cultural value system or traditions, which are prescribed by the political order.

To the extent that the political order prescribes property rights institutions based on the societal values, there will be harmonious relationship between the components of the institutional structure of the society and the economy. This is more likely where the political order is legitimate and represents the values of the society, and the evolutionary process of institutions is endogenous. Thus, the emergence of property rights is in response to the socioeconomic changes and reflects the changes in tastes and preferences that influence a shift in societal economic decisions and choices. In this regard, the ownership and utilisation of economic resources, which involves economic decisions such as the choice of ownership method and nature of economic assets, will be influenced by cultural values upheld by the society that owns and controls the economic assets. In contrast, where political and economic institutions are imposed, a conflict is likely to emerge and characterise the nature of institutions. Consequently, the nature and the degree of the conflict would define the nature of institutions, with implications for allocation and utilisation of economic resources, and the economic and stock market outcomes.

The underlying assumptions for the model in Figure 3.2 are that, the development of property rights in each SADC Bantu country starts at point AA. This stage, which is further discussed in Chapter 4, reflects the nature of the institutional structure and the economy of the indigenous communities, who were of Bantu linage, just before the arrival of the colonist, the agents of change. At this point, the economic resources are abundant and communal ownership of property dominants the nature of institutions. The choices and preferences of the society as defined by the political order are in harmony with the cultural value preferences for traditional assets or form of wealth and communal ownership. The development of capital markets at this point is almost nonexistent, largely because of the dominant communal ownership culture and the high preference for traditional rather than financial assets.

The development of property rights in SADC countries, discussed in Chapter 5, starts with the arrival of the settlers and subsequently the declaration of the sphere of influence over the territories by the European governments in the 1800s. Thus, this thesis argues that property rights in SADC countries emerged through a colonial process. The transition involves a shift from the Bantu traditions of communal ownership of property and the preference for traditional assets towards the imposed Western traditions. Colonial policies imposed a political order that introduced economic arrangements underpinned by their traditions of private ownership of property and preference for markets to allocate and utilise of economic resources. Their alienation and conversion of communal ownership rights to private ownership created scarcity conflict. Besides the institutional conflict between the imposed new system and the pre-existing cultural values, the alienation and conversion of communal property rights to private ownership introduced an inherent property rights conflict that is associated with scarcity of economic resources. A shift and the direction of the change from point AA are determined largely by the nature of the colonial policy towards the indigenous communities and settler’s economic activities that determines the nature and extent of conflicts. The evolutionary processes for each of the SADC countries are discussed in Chapter 5.

Because the political order that drives the development of property rights was imposed, the initial shift from point AA, which could take any direction, triggers an institutional conflict. This conflict persisted depending on whether the pre-existing traditional institutions coexisted with the imposed institutions or they were alienated or adapted to the new order, in which case the conflict is either eliminated or minimised.

Although the institutional development path towards point BB was equally characterised by institutional conflicts, at that point, there is harmony between the components of the institutional structure of the society, largely, because traditional institutions have been alienated or adapted to the system. Thus, within the development zone BB, the Western traditions of private ownership dominate the emergent and current institutions. The institutional environment at BB is characterised by a relatively high individual preference for private ownership, financial assets and the use of corporations and stock markets in allocation of resources among the society, which is backed by government institutions that promotes private ownership and the development of capitalists markets. Countries at this institutional development stage are expected to have developed industrial sector, rely on private sector for production of goods and thriving stock markets. The aggregate industrial development and the extent of countries' reliance on the private sector are examined in Chapter 6, while participation in stock markets is examined in Chapter 7.

Point CC is a conflict zone, institutional development path towards this point is characterised by the conflict between the political order that make formal provisions for private property rights and prescribe private property rights institutions, while the cultural values that individuals hold have high preference for communal ownership and traditional assets. There could also be some conflict between the government's role to enhance economic development by making a provision for private ownership and the need to maintain social harmony in the institutional structure, which involves the protection and enforcement of the traditions of communal ownership. The emergent and current institutions in countries that followed this development path are likely to be underpinned by strong cultural value systems in which communal ownership dominates the nature of institutions. Countries that are at this development stage are expected to have high preference for communal ownership (examined in Chapter 5), low levels of industrial development and private sector participation (examined in

Chapter 6). While stock markets could be established within the CC institutional development zone, participation is likely to be low because of low preference for financial assets due to the dominant communal ownership culture. This proposition is examined in Chapter 7 for SADC countries.

Within the institutional development zone DD components of the institutional structure of the society are also in conflict. The institutional path dependence for a country at this development stage is characterised by strong private ownership culture. Individuals in the society have relatively high preference for private ownership rights and financial assets, which includes the use of corporations and stock markets to manage and allocate economic resources, while government institutions do not promote and protect the private ownership culture. The government may make the provisions for private ownership, while the corresponding enforcement mechanisms are either discouraging or are nonexistent. The case of China, where the society preference for private ownership is high, while the political government is predominantly communist, may be an appropriate example to illustrate the proposition. Despite the high individual preference for private ownership, the government may hold ownership of some economic resources. Participation in stock markets established at this stage is unlikely to be optimal. The individual private ownership drive that encourages innovation, creativity and long-term investment may be discouraged by government policies.

The property rights development model in Figure 3.2 predicts the nature of the current institutions and the effects on ownership and utilisation of economic resources, given a particular development path dependence but does not illustrate the development path itself. The institutional path dependence for each SADC member country is discussed in Chapter 5. It is important to note that these proposed development stages are generic and reflect similarities than uniformity. The development processes may vary from one country to the other despite the similarity in the colonial policy. It is also possible that the communities in each SADC countries reacted differently even to the same colonial policy. These variations are likely to be reflected in the nature of institutions and the related outcomes even for those countries that are in the same institutional development category.

Figure 3.1: Interaction of the components of the institutional structure

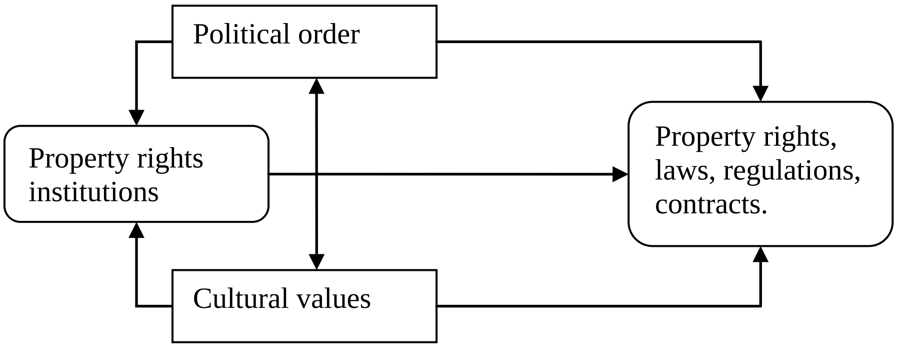
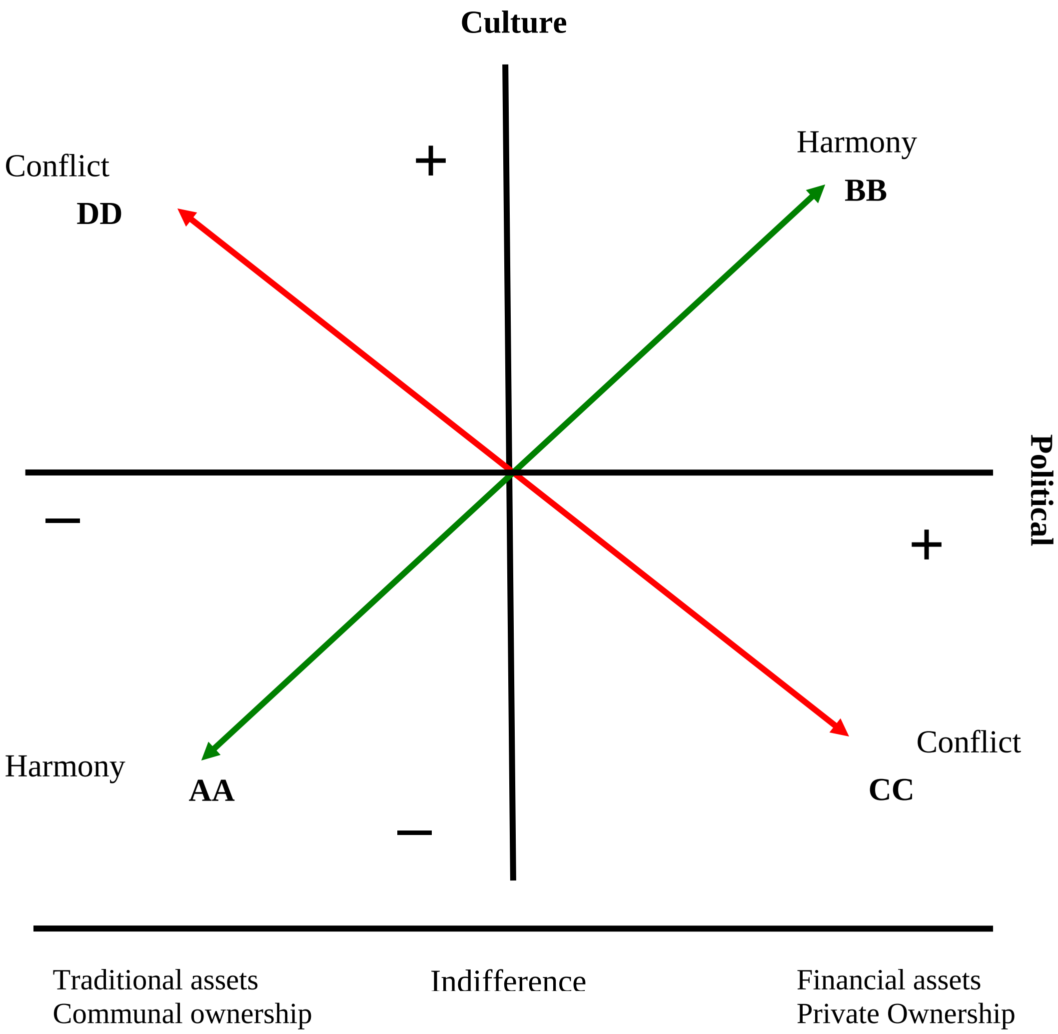


Figure 3.2: Property rights development model



3.5 Historical path dependence

> The character and function of those institutions are often evident only in their history. Many critical institutions, social arrangements and social groups predate modern societies and market economies; others are given a modern character, often by force, in a struggle over a variety of non-market issues. These institutions and arrangements, which often shape the form of modern markets, cannot be understood simply by a narrow analysis of economic calculus. One implication is that an analytic understanding of the origins of a country's market institutions and rules is an essential part of the task of understanding how contemporary market systems operate. The progressive evolution of these structures defines evolving sets of constraints and incentives (Zysman 1994:246).

The objective in this section is to define the concept of historical path dependence and highlight its relevance for purposes of this study. Path dependence as defined by Mahoney (2000:507) "characterises specifically those historical consequences in which contingent events set into motion institutional patterns or events chains that has deterministic outcome". In other words, path dependence is the process of tracing the current institutional outcome to the historical events that influenced them. It is a way of linking changes in institutional choices and preferences through time with specific outcomes (North 1990:98; Mwangi 2006:158).

Institutional development path dependence is a powerful tool that allows the trailing of institutional factors occurring at a particular point along the development of an institution that determined the current institutional outcome. Tracing the institutional outcome along the institutional development path will also reveal evolutionary processes, which influenced the institutional choices (North 1990:100) that determined the current institutional outcome. Understanding the nature of institutional changes, and how they occurred is a gateway toward understanding divergence among different countries. North (1990:101) suggests that institutional variations may persist despite the application of the same rules simply because "the enforcement mechanisms, the way enforcement occurs, the norms of behaviour, and the subject models of the actors" differs.

3.6 Description of variables

For purposes of clarity and better understanding of the structure of the empirical analysis, this section describes the key institutional, economic and stock market outcomes examined in this thesis, including their related measures or variables and the sources of data. The summary as detailed in Table 3.1 is selective and does not all the data used in the thesis.

The objective in this thesis is to explain the low participation in the stock market. An analysis that explains this phenomenon revolves around the proposition that the structure of the current property rights regimes in SADC countries and their transformation processes, which reflect the nature of a colonial policy shaped the institutional environment in which stock markets operate. Therefore, the variations in the nature of colonial policies are concurrent with the variations in the nature of institutions, which determine the quality of institutions that protects property rights. The economic outcomes that facilitates the demand for capital and in turn participation in the stock market vary with the variations in the nature of institutions and their related degrees of property rights protections. Stock market outcomes, which are proxies for the levels of participation in the stock market varies with nature of institutions and their related degrees of property rights protections and economic outcomes.

These interrelated outcomes and their measures are summarised in Table 3.1. They are described and discussed in detail in the relevant chapters. For instance, low participation in SADC stock markets is described in Chapter 2 and analysed in detail in Chapter 7. Economic outcomes and the effects on participation in stock markets form part of the analysis in Chapter 6. The colonial influence and the consequent nature of institutions are discussed in Chapter 5. Chapter 4 describes the pre-existing or initial property rights systems of the indigenous communities in SADC countries highlighting the persisting aspects of the cultural value systems that also have implications for the nature of institutions, economic and stock market outcomes.

Table 3.1: Definition of key variables

Variable	Description
Stock market development	
Listed companies	the number of domestic companies listed in the domestic stock market indicate the level of stock market participation. Domestic listed company in this study refers to a company that has a primary listed in the country where it is incorporated. This definition is limited in that some of the companies incorporated in most of the SADC countries are subsidiaries of Multinational Corporation and are controlled outside their incorporation jurisdiction. Nonetheless, the number of listed companies remains the most appropriate indicator given the circumstances. The main sources are individual stock markets websites and published reports. Other sources: United Nations and Development Programme (UNDP); African Stock Exchange Association (ASEA)
Market cap ratio	market capitalisation ratio is the value of a nation's wealth invested in the stock market. It reflects the extent to which the stock market is used to allocate resources relative to the country's GDP. It is calculated as the average value of listed companies during the period divided by the GDP. The ratio is used a measure of the development of the stock market and consequently participation in the stock market. It is assumed that the larger the ratio the higher the ability of the stock market to mobilise financial capital and diversify risk (Levine and Zervos 1998b:1170), and therefore the higher the level of participation. Sources for stock market data: national stock exchanges; African Stock Exchanges Association; GDP is from United Nations Conference on Trade and Development (UNCTAD).
Traded shares	the total volume of shares traded in the stock market indicates the size and the level of trading activity in a stock market within a specified period. It measures the level of stock market development. The assumption is the higher volume of shares traded suggest a related level of stock market development and consequently participation in the stock market.
Turnover ratio	the ratio is defined as the value of traded domestic shares during the period to the value of listed domestic shares. It indicates the proportion of the value invested in the stock market that was traded within a specified period. The assumption is that, the size of the ratio indicates the level of the stock market development and consequently participation in the stock market.

Influence of colonialism – private ownership

Number of settlers	this refers to the number of European settlers that were resident in a territory. It is used as a proxy for the degree of the settler private ownership cultural influence on traditional institutions or dominance in the economy. The assumption is that the higher the number of settlers the higher the level of private ownership influence and consequently high economic activity and outcomes. It also predicts the extent of private sector support and involvement in the production of goods and services in the economy. Source of data is the United Nations Democratic Year Books 1956 and 1960.
Urbanisation rate	is expressed as a percentage of population living in the urban areas. The rate indicates the extent of change in the social system as a consequence of colonial economic activities. The assumption is that the higher the urbanisation rate, the higher the level of economic activity and consequently the higher the impact of colonialism on the traditional institutions. Data source: United Nations population division – available data ranges covers period 1950 – 2000.
Land tenure	Land tenure refers to the land title, which describes the nature of ownership rights attached to land. It is the outcome that shows the extent of private ownership influence on traditional institutions. The proportion of land transformed to private ownership indicates the degree of private ownership influence on economic organisations and the utilisation of economic resources. The proportion of land held under a communal title indicates the extent of traditional or communal ownership influence on economic organisations and the utilisation of resources. Source of data is the United Nations Economic Commission for Africa (2003); Botswana government (2002).
Private sector credit	Defined as: domestic credit allowed to the private sector divided by GDP. It indicates the level of private sector support by the government and participation in the economy. The underlying assumption that countries that had greater settler private ownership influence would have greater support for the private sector and consequently higher economic output, which includes participation in the domestic stock market. Data source is the World Bank (World Development Indicators 2006).

Quality of institutions

Political democracy	is an index of political freedom as used by Freedom House. It indicates the extent to which the government provides and protects the right of individuals to participate freely in a legitimate political process and the liberty of individuals to exercise their right to freedom of expression, association and personal rights with less interference by government. It is used in this study as an indicator of the freedom of individuals in the society to exercise their property rights. The assumption is that, the higher the levels of political freedom, the higher the quality of institutions. Freedom House measures the degree of freedom by the average ratings of the political rights and civil liberties. The final rating is on a scale ranging between 1 and 7, with 1 representing the highest degree of freedom and 7 the lowest level of freedom. Those ratings 1.0 to 2.5 are considered free, 3.0-5.0 partly free and 5.5-7.0 not free. In this study, political freedom ratings are converted and the nominal number 1 represent a free condition, 0.5 partly free and 0 not free. Data source is Freedom House.
Corruption index	the corruption perception index (CPI) score is based on perceptions held with regard to the level of corruption in a country. The scale used by Transparency International ranges from 0 to 10, with 0 indicating high levels of perceived corruption. The higher the CPI score, the lower the perceived corruption level and the higher the quality of institutions and consequently the protection of private property rights. Source of Data is the Transparency International: corruption index 2006.
Property rights	the private property protection score prepared by Heritage Foundation is based on broad factors that includes the extent to which laws of a country protects private property rights, government enforcement of the laws, independence of the judiciary, the level of corruption, enforcement of contracts and the likelihood of expropriation of private property by the government. The level of certainty of these factors determines the score, such that the higher the uncertainty the lower the protection of private property rights. A rating of property rights protection is based on a scale ranging from 1 to 5, where 1 stands for a very high level of protection, 2 high, 3 moderate, 4 low, and 5 very low private property protection. In this study, the scale is reversed such that the index 5 indicates very high protection, 4 high, 3 moderate, 4 low and 5 very low for the qualitative analysis only. Property rights scores used are from 1995 (the earliest available) to 2006. Data source is the Heritage Foundation.

Economic Capacity

Savings level	is defined as the gross domestic saving divided by the countries total population. Savings level, which is gross domestic saving per capita, indicates the capacity of the economy to supply financial capital to enhance participation in the domestic stock market. The source of data is the African Development Bank.
Manufacturing Value Added	this is the proxy for level industrialisation and productive activities. It is defined as the value added by the manufacturing sector to a country's total output, GDP and indicates a country's industrial capacity to enhance participation in the domestic stock market. Data Source: United Nations Conference on Trade and Development (UNCTAD)
Population size	it is used as a scale measure and indicates the overall capacity of the economy to enhance participation in the domestic stock market. The smaller the population the lower the overall demand and supply of long-term capital and hence participation in the domestic stock market. Data source: Southern African Development Community (SADC).

3.7 Conclusion

This chapter has described the basis of the framework that is further developed in Chapters 4 and 5. It emphases the theoretical concepts underpinning the framework in which the effects of property rights on participation in the stock market are placed in the context of the overall institutional study of the society. The chapter also discusses and explains relevant theories with regard to participation in stock market. The interaction of the components of the institutional structure of the society and the influence of the development of property rights on individual choices and preferences and the effects on participation in the stock market are property rights development are discussed and depicted in a model.

The stock market is defined as a property rights organisation that is used to allocate economic resources. Its effectiveness in allocating resources depends on the level of participation. For example, the level of resources distributed though the stock market depends on the extent of demand and supply of financial capital and the sufficient demand and supply of company shares.

Chapter 4 The Bantu Rights Institutional Structure

4.1 Introduction

It is argued in this thesis that not only the nature of property rights but also their development processes matters for participation in SADC stock market. The nature of institutions and their development processes, which are products or consequence of a colonial policy, shaped the environment in which stock markets operate.

Therefore, for better understanding of the effects of (1) a colonial policy on the nature of institutions and their development processes; and (2) the effect of the property rights development processes on the nature of institutions and their related economic and stock market outcomes, it is essential to establish the nature and role of the pre-existing institutional structures. This chapter describes the pre-existing institutional structures prior to the arrival of settlers and the formal declaration of the sphere of influence by the European government in the 1800s. This initial period, pre-property rights development, is marked as AA in Figure 3.2. How institutional structures developed and the consequential nature of institutions or property rights regimes is discussed in Chapter 5. The effects of the development processes and the nature of the emergent property rights regimes on economic outcomes are examined in Chapter 6, while Chapter 7 examines the effects of the development processes, the emergent nature of institutions and economic outcomes on stock market outcomes that indicates the levels of participation in the stock market.

In addition to identifying the relevant attributes of the pre-existing institutional structure of the Bantu community, the chapter also examines those attributes that persisted and continue to influence the economic decisions and choices in SADC countries. The extent to which the traditional value systems persisted and continue to influence the economic decisions and choices will not only indicate the extent of colonial influence but will also assist in the determination of the underlying culture underpinning the ownership and utilisation of economic resources in the society. As explained in Chapter 3, dominant ownership culture of society is likely to concur with the nature of institutions and their related economic and stock market outcomes and in turn participation in the stock market. That is, the variations in the degree of colonial influence on the traditional institutions is likely to be consistent with the variations in the nature of the emergent or current institutions, their related economic and stock market outcomes, and in turn participation in the stock market.

The analysis in this chapter draws from a wide range of sources ranging from the published material, survey by the Commission for Africa (2005), company reports and newspaper articles. While it is intended to present an objective analysis, it may be affected by the author's inherent biases as a member of the Bantu community, with personal experience as to the nature and functions of the institutions described in the chapter.

The chapter gives an overview of the property rights system inherent in the institutional structure of the Bantu communities, focusing on the relevant, dominant and the persisting attributes that continue to influence economic decisions and choices (section 4.2). The nature of property rights in the context of the Bantu communities is discussed in section 4.3. Section 4.4 concludes the chapter.

4.2 Bantu property rights and cultural value systems

> Africa's strength lies in social networks, which are invisible to many outsiders. What can appear to donors as a form of anarchy is in fact structured; it is just that these are structures, which Westerners are not trained to perceive. Africans survive – and some prosper – in the face of low incomes and few jobs in the formal economy. They do so using a complex network of social relations that make decisions about who gets start-up capital for small enterprises or interest-free loans in emergencies. These networks may be informal but they reveal how African people will get involved in activities where they can see purpose and direction (Commission for Africa 2005:26).

This section gives an overview with regard to the nature of the Bantu property rights systems, focusing on the distinct attributes that distinguish it. It also highlights the pertinent attributes of the Bantu property rights system that not only persisted but also continued to influence economic decisions and choices, suggesting that they survived colonialism. It is argued in this study that the extent to which these traditional values persisted and continued to influence economic decisions have implications for industrial development and in turn participation in the stock market.

Although the Bantu speaking communities are not the only indigenous communities in SADC countries, they are the largest in terms of numbers and dominate all political, economic and social aspects. Table 4.1 shows the percentage of Bantu communities in the SADC countries. The balance of the population is comprised of: indigenous non-Bantu communities, including the San, Khoi and Twa, who also spread across sub-Saharan Africa (Kubik 1988); the non-indigenous Bantu people residing in a country; other non-indigenous Africans; and peoples from non-African societies, such as Europeans. Classification of Bantu languages is as described by Guthrie (1967); Gadelii (2001); Holden (2002); Kamwendo (2004) and Chebanne (2007). The information in Table 4.1 is obtained from the American Central Intelligence Agency World Factbook. Because the necessary languages and ethnic groupings for two Bantu-dominated SADC countries, the Democratic Republic of Congo and Namibia, are not available in the source materials, they are omitted from the table.

Table 4.1: Bantu communities in SADC

Country	%
Angola	75.00
Botswana	88.90
Lesotho	99.70
Malawi	96.40
Mozambique	78.00
South Africa	71.30
Swaziland	97.00
Tanzania	95.00
Zambia	99.50
Zimbabwe	96.00

Source:https://www.cia.gov/library/publications/the-world-factbook/fields/2098.html . Last accessed 11/09/2009

The effect of the non-Bantu indigenous communities, mainly the San, Khoi, Twa, Bushmen and others with similar cultural dispositions, are not material to the purposes of this thesis because they lack the political and economic power to influence property rights under the prevailing circumstances. This arises from at least four sources. First, unlike the Bantu farming communities that controlled most of the land, these communities were hunters and gatherers (Kubik 1988; Scott 2006). Their collective property rights regimes with respect to any territorial land were open access, and did not allow for excludability or transferability (Quiggin 1988),thus precluding any contemporary institutional significance..

Second, where these communities existed they were overwhelmingly dominated by, and in some instances assimilated or absorbed into, the Bantu communities or European settler community (Kubik 1988; Thompson 1995; Scott 2006; Chebanne 2008).While they might have influenced some Bantu cultural traits (Kubit 1988:39), they lacked the political and economic power to significantly influence the subsequent development of property rights regimes.

Third, where indigenous non-Bantu communities were not absorbed by Bantu or colonial societies, they are geographically isolated in remote areas where they continued to practice their culture (Chebanne 2008) and do not have any significant influence on the development of property rights or capital markets. Ironically, they now rely on the prevailing property rights regimes to preserve their occupation of these remote territories against attempts to force their integration into the mainstream Bantu community. A recent example in this instance arose in Botswana in December 2006, when the San group, known as the First People of the Kgalagadi, with the assistance of international human rights organisations, were successful against the government in the High Court in preventing their forced removal from their ancestral lands.

Fourth, even where indigenous non-Bantu communities are the most populous (Botswana, Namibia and South Africa), they are less than 2 per cent of the population (Chebanne 2008).

In contrast to the Western traditions that promote individualism emphasising private ownership and market price for the allocation of economic resources, the Bantu communities' property rights system revolves around their social networks and communal lifestyle. These networks do not only influence behaviour and economic decisions and choices, they also regulate the relationships, which include exchange contracts, and influence the allocation of economic resources. They are fundamental to the Bantu communities' social, political and economic systems. Schapera (1937:67) describes them as:

> The more or less permanent framework of relationships between the members of the community, which manifests itself in an ordered group-life, with reciprocal rights and duties, privileges and obligations, of members, determining the behaviour-patterns for each individual member towards other members, and moulding the feelings, thoughts, and conduct of members according to these patterns, so that it is only in and through them that the individual can achieve his personal self-realisation and participate in the satisfactions offered by the life of his community.

Generally, the African institutional structure, within which their networking took place, consisted of three groupings: the household as a basic unit, the kinship, which is the extended members of the household who are relatives by birth or marriage, and the tribe as the main grouping. The basis for the Bantu groupings was their communal relationships underpinned by the social principles that emphasised the need for compassion, solidarity and respect for each member of the community. Based on the same social principles, generosity and kindness, or ubuntu in Zulu or botho in Tswana, were the implicit resource distribution norms. In terms of the Bantu culture, tribesmen were obliged to share their labour and acquired assets within the social lineage starting with the family or household as the basic unit of production and social base.

Beyond their household needs, the family unit had a social responsibility towards their relatives, both blood and marriage relations, to whom they owed special gifts, labour assistance and goodwill gestures, which relatives reciprocated. To the community at large, the family unit had to share generously. Although there were no statutory punitive and mechanisms to enforce these values, some social benefits in the form of derived prestige, cooperation and highly esteemed social recognition accrued to the giver. The same culture that encouraged the needy to ask for assistance also provided the essential incentives. This sharing culture encouraged social interactions that were fundamental to the Bantu communal relationships (see Kuper 1952:16-21; Schapera 1937:149-171, 1953:39-44; Turner 1952:32-40 and 1952:36-42, 1971:138).

> Among the obligations, hospitality plays a large part. Every visitor must be provided with food, a great stress being laid upon the observance of this rule… When a man slaughters he should reserve some of the meat for the neighbours attracted to his home. A selfish or niggardly man was despised; a generous man is warmly praised and generally, a welcome quest in turn when

> he visits others. We have also seen that people are often asked to assist their neighbours at work. No one is compelled to do so; but the tradition of reciprocal help, without which many common tasks could not be satisfactorily accomplished, is generally a sufficient incentive (Schapera 1937:164)

The Commission for Africa, which was set to define economic development challenges and recommend changes, examined the culture and its importance across all the 46 sub-Saharan countries. The Commission found some attributes of this traditional value system, in particular the kinship relations and the social networks, to not only persist but also to continue influencing economic decisions including the allocation of economic resources in most parts of sub-Saharan Africa. In some places, particularly in failed states such as Somalia, these networks are seen as alternatives to the state (Commission for Africa 2005:25-26). The Commission observed that despite their persistence, the traditional cultural value systems are largely informal and their role less understood by the agents of change. As a result, their potential role in contemporary development is ignored. The Commission also suggests that there are misconceptions among the international development organisations engaged in economic development drive in sub-Saharan Africa with regard to these traditional values. The Commission's view is that:

> Not least here is the 'big man' culture, which requires a successful member of the clan to offer patronage to other members – a phenomenon which is rarely taken with sufficient seriousness by development policymakers. Patron-client relations should not be dismissed as temptations to nepotism and corruption; they reveal something about African senses of community (Commission for Africa 2005:26)

Although the Bantu value system underpinning their institutional structure might have failed to orient them towards industrialisation, entrepreneurship, and trade, largely because it provided no incentives for creativity, innovation and surplus production (Rood 1976:428), it could be argued that it was effective in maintaining social harmony in the society. For example, the social principles underpinning their property rights system was effective in constraining rent-seeking behaviour, and ensuring political stability and economic sufficiency (Buell 1928:445). Their communal culture ensured equitable sharing even with the poor and vulnerable members, while common ownership of land effectively reduced the effects of settler colonialism (Chanock 1991:71). Despite the simple skills and lack of speciality, the Bantu produced sufficient for their needs (Schapera 1937:153), and "household self-sufficiency was the rule and the exchange an exception" (Wickins 1981:81).

With regard to the effect on the development and participation in the stock market, since the assumption of an abundant resource may no longer hold, the failure by the Bantu property rights system to concentrate both the benefits and costs is unlikely to encourage innovation and creativity. This shortcoming has implications for effective use of resources to increase production and is likely to impede industrial development and consequently participation in the stock market. The fact that communality, in as far as Bantu communities are concerned, extends beyond ownership of economic resources and includes relationships suggests that the source of inefficiency is not only limited to the use of resources but also encompasses labour productivity and effectiveness.

The Bantu property rights system that was common in all SADC countries before European intervention with the exception of Mauritius, is explained and illustrated in subsections 4.2.1, 4.2.2 and 4.2.3 using examples from selected countries. The examples are used only to elucidate the nature and effect of the Bantu property rights regimes in contrast to the European type of property rights.

4.2.1 The Bantu economic sharing methods.

As discussed later in the chapter, unlike the market-oriented private ownership system, the underlying incentive for the Bantu institutional system was not the maximisation of present value or return on private ownership of a resource but rather the social benefit.

The exchange of property in the pre-colonial Bantu was motivated more by the social values than the market price. While this is consistent with their communal lifestyle, it could also be partly explained by the absence of monetary value. Wealth in a typical Bantu society was in the form of physical possession, counted in the number of cattle (Ayittey 1991:26) rather than the intrinsic pecuniary value. Cattle in particular were the main medium of exchange, including through court fines. This explains why despite land being their main resource factor, the Bantu attached a greater importance to cattle (Schapera 1937:137) from which they derived private benefits than land that was plentiful. This suggests that the indigenous Africans like all other nations valued private ownership. They however differed in terms of the cultural value systems underpinning the ownership and utilisations of resources. Their incentive for ownership was not the market value but the social return, which influenced their economic choices and the utilisation of economic resources.

Most productive activities among the Bantu community took place within the family unit. The family and household in the context of this study would have the same meaning. Among the Bantu community, it was common practice for someone who was not a member of the family unit to be living with the family and be considered a member. Specialisation in production was very much limited to the different roles played by members of the family unit based on their sex and age. Therefore, there was virtually no difference between goods produced by different Bantu households. It is likely that the lack of competition among the Bantu production units limited innovation and competitiveness in the use of economic resources. Competition encourages efficiency in the utilisation of economic resources as producers became innovative in order to minimise production costs and maintain quality of their products.

In the Bantu social system described in the preceding section, where the household had a task that needed additional labour to accomplish, relatives were culturally obliged to provide the necessary labour to complete the task. Where assistance from the relatives was insufficient to accomplish the task, the family invited neighbours through arrangements such as work parties where they brew large quantities of beer or killed an animal to share meat among the work party. This was not a payment as the object was to help. Work parties were among the social gatherings that encouraged interactions, which improved relationships between members of the community. Although attending to the call for working parties was not regulated, it was mandatory in the sense that those who did not participate were not reciprocally assisted (Schapera 1937:151-152).

Another example of the Bantu assistance schemes is the lending of cattle to other tribesmen. Usually this involved the handing over of cattle by one member of the community to another who either has fewer or no cattle to use in tilling the soil and as source of milk, but could not sell them. Although there was no fixed payment for looking after such cattle, the herdsman was often rewarded with a heifer after some time. Besides the herdsman providing assistance, spreading cattle through loaning allowed the owner to diversify risk against contagious cattle disease (Schapera 1937:154-155).

In a way, these social sharing mechanisms in Bantu communities promoted social equity in that, although there was no monetary exchange, they were practices that ensured equitable benefits to both parties.

4.2.2 Traditional practices in modern economies

Notwithstanding their persistence and influence on the modern economic decisions, in a legal sense, traditional institutions are at best informal. This means that, despite the fact that the underlying values of the traditional institutions may continue to influence economic decisions, officially, their role in the contemporary economies is limited. Under these circumstances, ignoring the significance of traditional institutions in institutional planning would lead to suboptimal economic outcomes. As observed by the Commission for Africa (2005:26), the social networks in Africa are central to the political, economic and social life. They adapt to the changing environment and modernise their activities to meet the current challenges without losing the traditional structure and values. The financing social networks that continue to allocate economic resources based on social principles rather than economic rationalisation (Commission for Africa 2005:26) is an example. Features of these social networks may have changed over time but in their nature and essence derives from the indigenous Africans' communal sharing principles.

In addition to the findings by the Commission for Africa, there are other examples from individual SADC countries that equally demonstrate the extent to which traditional institutions influence economic policies and decisions. For instance, the fundamental principles of communal relationships ubuntu or botho continue to influence economic policies in SADC countries. At independence in 1994, the South African government inherited a politically, economically and culturally polarised society. As part of the national reconciliation strategy, the government invoked the principles of ubuntu to encourage political and cultural tolerance with a view to promoting economic partnerships among all South Africans and to ensure economic productivity. At the same time, it was meant to facilitate the catching up of the economically marginalised. The adaptability, particularly in recognising the political and economic disparity and the adoption of policies that promote political and cultural tolerance in post-apartheid South Africa, is the greatest strength of the former settler state that distinguishes it from another regional former settler state, Zimbabwe. While moderation is the guiding principle in South Africa, the process of creating equity in the ownership of assets in Zimbabwe is chaotic.

The concept of 'botho' in Botswana forms one of the fundamental pillars of the nation's vision 2016. "Vision 2016" is Botswana's strategy to propel its socioeconomic and political development into a competitive, winning and prosperous nation[17]". These principles do not only influence policy decisions but they are also part of the social life in Botswana. As a demonstration of the existence and influence of the principle of botho among the Tswana community, during a farewell tour around the country before retirement at the end of March 2008, the country's president Festus Mogae received goodwill gifts even in the most rural villages where people are generally poor. This goodwill gesture attracted a commentary in the local newspaper, Mmegi wa Dikgang, in which it was suggested that "Botho should not tax the poor". The point that the newspaper editor may be missing in this case is the essence of gifts from the African perspective. Sharing in a typical African culture is not dependent on how much one has. Rather, it is a principle of life derived from social values. This in the Tswana community is expressed by the phrase moeng go gora dijo di bonale, literally translated: "visitor arrive so that we can have food".

Similarly, in Zambia, a local newspaper, The Post, on 3rd March 2008, reported that one of the local chiefs is resuscitating the idea of collective ownership and self-sufficiency by motivating and mobilising the tribe to establish a reserve bank. The idea is to create a form of security and insurance against natural disasters that may befall the community. Despite the fact that the idea remains a proposal at this stage, it does demonstrate the influence of the historic communality not only in social life but also in economic decisions and the importance of traditional institutions such as the chieftainship and the tribal groupings.

[17] http://www.vision2016.co.bw/index.html accessed on 23/05/08.

4.2.3 The nature of the Bantu property rights institutions

The fact that land, the main economic resource, was plentiful does not mean that there was no system to regulate its use. There were parameters within which the allocated land could be utilised. Bantu communities had laws and customs that regulated the behaviour in the society including property rights contracts that involved other assets, which they privately owned and the utilisation of land that was communally owned. The Bantu property rights system also had enforcement mechanisms that ensured protection of property rights and restrained rent-seeking attitudes of the political elites in society (Buell 1928:445).

Despite the multiple tribal groupings, the Bantu property rights systems had a number of commonalities (Ayittey 1991:71). For example, their political order, in particular, the chieftainship, had similar structures and was responsible for the protection and enforcement of property rights within the framework established by the tribe. A tribe is "a body of people organised under the rule of an independent chief" (Schapera 1937:173). Its membership is by allegiance to the chief. Membership could be acquired through birth, voluntarily by joining the community, or conquest. An individual could join or leave the tribe at will.

The Bantu community's laws and regulations were not written. They were passed from one generation to the other through cultural practices and heritage. Common institutional features among the Bantu tribal groupings included: the role of the chief; the nature of property rights; the use and ownership of land; and their way of life in general. As a custodian of the customs and traditions, the chief was not only responsible for the enforcement of laws and regulations, but also took care of the welfare of the tribe and state administration. In return, the chief enjoyed some privileges, and was entitled to receiving tributes from the tribe (Schapera 1937; 1955; Ayittey 1991). There may have been variations in the application of these general principles among different tribal groupings but the structure was universal and understood in a similar context across the Bantu communities.

4.2.3.1 The traditional assembly system

The tribal assembly known variously as kgotla in Botswana, pitso in Lesotho, imbizo in South Africa's Zulu, and kota in Zambia's Lozi was an integral part of property rights institutions. Despite the different labels, the assembly system was universally understood and served a similar purpose across the Bantu tribes. This was a place where important social issues where discussed, and where the chief was to account to the tribe. It also served as a court system; that is, a place where property rights violations and disputes were resolved, and restitutions in case of contractual default was obtained (Schapera 1937:177-184).

For convenience, the case of Botswana is used specifically to illustrate the nature, functions and the effectiveness of the assembly system in the regulation and enforcement of property rights. Botswana is a suitable case for this purpose for three reasons: (1) the availability of a detailed and elaborate survey by Schapera (1955) on the Tswana customs and traditions including the assembly system; (2) Botswana probably experienced the least colonial impact. Thus, its traditional institutions survived colonialism (Selborne 1914:359; Pim 1934:669; Schapera 1937:174, 1955:195; Boateng 1978:175); and (3) at independence, Botswana integrated traditional institutions into its contemporary institutional structure.

The kgotla system (traditional court system) continued to play a pivotal role in the affairs of the Tswana communities. Important issues, not only of a tribal nature but also of national are disseminated through the kgotla. Botswana maintained the dual court system, that is, the traditional courts and judiciary even to date.

Like other Bantu communities, the kgotla system formed a pinnacle of the Tswana culture and played an important role in their public life. It was a place of assembly where matters of public concern and welfare of the community were discussed and where all laws were made and enforced (Schapera 1955:19, 80)

The kgotla system provided for the freedom of speech and the right of members to demand and instil accountability on the ruling class. The chief's political power was kept under check – first by the advisory council, which met and counselled with the chief at the kgotla. Secondly, the chief was accountable to his tribe through the kgotla.

The third control mechanism was that any member of the community attending a kgotla meeting could speak and criticise the chief. Freedom of speech upheld through the kgotla (Schapera 1955:83) was one of its fundamental principles, hence, the Tswana dictum mafoko a kgotla a mantle otlhe, mmualebe o a bo a bua la gagwe gore moana lentle a tle a letswe. Translated as, “all words spoken at the kgotla are welcome. The speaker has the right to speak and state a personal view so that those with better ideas could speak out”.

The kgotla also served in place of the modern court system where both civil and criminal cases were heard and justice administered (Schapera 1955:197). Important contracts involving the alienation and use of property were concluded in the presence of men at the kgotla. This entitled the sufferer, in case of default, to restitution (Schapera 1955:239).

This shows that Botswana as a nation was built upon traditional institutions that promoted political accountability by encouraging broad participation and constraining the political leaders from exploiting tribal resources. It is unlikely that these institutions emerged under threat or colonial influence. The background also provides a basis on which to evaluate the changes and the influence of colonialism on traditional institutions in SADC countries.

Botswana is not the only African country where the integration of the traditional institutions with contemporary ones produced a high breed of a good governance system. Somaliland, which is referred to by the Commission for Africa (2005:28) as “a place of modest but ordered prosperity”, according to the Commission, is the only state in war-torn Somalia that has retained and incorporated the traditional court system of elders, the Tol, in its parliamentary system. This system instils accountability and responsibility in the society by making each clan responsible for the actions of individual members. The Commission notes that as other parts of Somalia that abolished the Tol system had persistent political and armed conflicts, peace and political stability prevailed in Somaliland (Commission for Africa 2005:28).

> Such a hybrid system is not one which a political theorist might have invented given a blank sheet of paper. But it is one, with its odd mix of African and Western systems of governance that clearly works. The

> challenge is to harness the cultures of Africa to find such workable hybrids for the rest of the continent (Commission for Africa 2005: 28-29)

It is argued in this thesis that, although these mechanisms may not have been efficient with regard to the allocation and utilisation of economic resources, they were effective in resolving property rights conflicts and restraining rent-seeking attitude. The control mechanisms inbuilt in the Bantu institutional structure enabled the communities to enforce their rights, which included the right to instill accountability from the ruling class, the chiefs. Botswana, which incorporated these traditional mechanisms in its contemporary institutional structure, remains the political and economic success story of an African nation (World Bank 1992; World Economic Forum 2004; World Development Report 2005; Commission for Africa 2005:43; Robinson and Parsons 2006).

While Robinson and Parsons (2006:106) have attempted to explain good governance in Botswana in terms of the defensive strategy against a political threat from a settler state, the then Union of South Africa, this study argues that the good governance seen in Botswana reflects the inherent cultural values. According to Robinson and Parsons, good governance in Botswana is explained by the fact that the Tswana communities incorporated other tribes in the pre-colonial period and rationalised their institutions as a defensive strategy against the political threat from the Union of South Africa. Robinson and Parsons further argue that it was in the best interest of elites to create good governance structures that protect private property because they had heavily invested in cattle, the main industry in the country. Therefore, they were motivated by private interest to establish protection for private ownership.

This thesis contest that the source of Botswana's good governance system is its traditions and customs that encourage political tolerance and promotes accountability and the rule of law. These attributes are inherent in their culture and exercised through the traditional assembly the kgotla system. As explained earlier, traditional institutions in Botswana were the least affected by imperialism.

The probability of inheriting good governance principles from a colonial system is almost nonexistent, more so that colonists in sub-Saharan Africa were not democratic. Even then, it is generally agreed that the African elites had little opportunity to acquire democratic principles because they were not exposed to political decision-making processes. The fact that chiefs who were the custodians of traditional institutions were among the elites who inherited the government at independence in Botswana, makes it reasonable to assume that it was appropriate and convenient to invoke traditional values because that is what they knew best.

Therefore, in those countries where traditional institutional structures are dominant, harmony between institutional structures is highly likely.

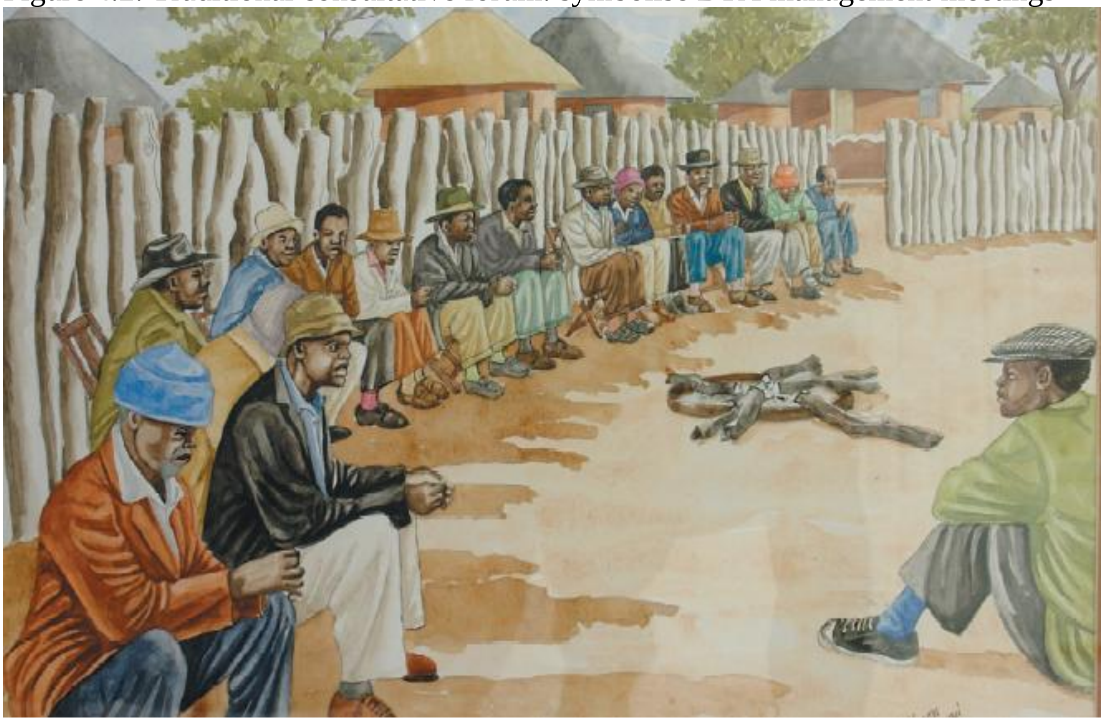
4.2.3.2 The influence of the traditions on the corporations

The contention in this study is that traditional value systems continue to influence economic preferences and choices in SADC countries, especially in those that had lower colonial influence, such as Botswana. This section illustrates the nature and extent of influence in corporations using a case of a corporation whose governance structures mimic traditional institutions. Figures 4.1 and 4.2 are graphical representations of the Tswana traditional governance system, modelled by the Botswana Telecommunications Authority as a symbol of its corporate governance network. They were extracted from the corporations' annual report for the year 2005/2006. Botswana Telecommunications Authority (BTA) is a public corporation, which regulates the telecommunications in the country. In the caption to the pictorial given below as figure 4.1, BTA describes its corporate governance system in terms of the traditional model. The role and functions of the board of directors is likened to the highest traditional consultative forum where a chief consults with the council of elders on important tribal issues. The role and functions of the BTA management team as a resemblance of the traditional assembly, the kgotla, is explained in the illustration given below as figure 4.2.

Figure 4.1: Traditional consultative forum: symbolises BTA board of directors

Source: Botswana Telecommunications Authority (BTA)[18]

Figure 4.2: Traditional consultative forum: symbolise BTA management meetings



A traditional consultative forum of the "Kgotla system", symbolic of the Monday morning senior management meetings. A member of staff's presentation to the Chief Executive and senior management.

Source: Botswana Telecommunications Authority (BTA) [19]

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[18] http://www.bta.org.bw/pubs/AnnualReport/BTA%20Annual%20Report%202005%20-%202006.pdf accessed on 19/08/2008

[19] http://www.bta.org.bw/pubs/AnnualReport/BTA%20Annual%20Report%202005%20-%202006.pdf accessed on 19/08/2008

The report on South African companies published by Who Owns Whom in Africa, which is discussed in detail in Chapter 6, also observes that in Africa there is far more focus on team management as opposed to the individual management practised in South Africa. Companies state that they have had to adjust their corporate policies to accommodate the variation in culture. This is significant because South Africa, as discussed in Chapter 5, is probably the only former Bantu SADC country that was transformed with its institutional structures reflecting more of a European culture than Bantu. This explains why their company policies are generally not compatible with some of the practices in other African countries. It also further supports the example from the Botswana Telecommunications Corporations that indicate the significant influence of cultural values on the management and governance of corporations.

4.3 Property rights structures

As discussed in Chapter 3, property rights structures of the society, particularly the nature of ownership rights attached to property, have implications for its utilisation. This section describes the Bantu property rights ownership structures, in particular the ownership of land that was the main economic resource. It highlights the extent of colonial influence on the indigenous communal ownership culture, which is reflected by the proportion of alienated land. The proposition is that, for reasons explained in Chapter 3, the variations in the extent of colonial influence in SADC countries is likely to concur with the variations in their levels of industrial development and stock market participation.

4.3.1 The land tenure system

Prior to colonialism, the Bantu communities heavily relied on land in its natural form for their economic life. Their tradition of "shifting cultivation," where they would move from one place to the other in search of fertile land, sufficiently provided for their needs. Shifting cultivation practices were sustainable because land was in abundance. Besides their dependence on land for their food supply, the Bantu community also relied on land to feed their livestock and build their shelters (Schapera 1955; Pachai 1973; Kalinga 1984; Ng'oong'ola 1990; Simelane 1991; Rose 2002).

Once the tribal territory had been established, the chief who was the leader and custodian of customs and traditions of the tribe becomes the custodian of the land, the ownership of which rested with the tribe and not the chief. The role of the chief was limited to the control of land without ownership. Such control was exercised through the headmen who were allocated chunks of land to distribute to tribesmen, together with the power to resolve land disputes. Similarly, land allocated to the family, which in this case was also a productive unit, was controlled by its head. In the exercise of such control, tribal interest was paramount. As such, the chief was to exercise such power in the best interest of the tribe within the social structure, not arbitrarily nor for personal benefit. For instance, the chief could not dispossess the holder as long as land was still in productive use (Schapera 1955; Pachai 1973).

An important feature of this land tenure system was that, although allocated land conveyed property rights, they were limited to the right to use and to exclude others without ownership. This meant that land could not be bought or sold. It could be transferred but only by inheritance through lineage or as a gift (Schapera 1937; 1955; Pachai 1973; Ng'oo'ngola 1990; Simelane 1991; Rose 2002). Thus, the land tenure system conveyed what is known as usufructs rights, which is the right to use without ownership.

Communal ownership of land in the Bantu community is consistent with their social networks and the communal lifestyle. Because land was the main resource, its protection was important to ensure that each member not only has the right to land but also full access to land. Communal ownership therefore, ensured that no tribesman was deprived of the right and access to the main resource, land, because of price or any competitive form. It eliminated speculative behaviour and guaranteed access to all members including the poor. The cost associated with this social distribution system, as stated earlier is lack of incentive for effective productive use of economic resources. In other words, there is a trade-off between the social responsibility of the state and industrial development and economic growth. Finding the right balance between the two competing priorities against the backdrop of the marginalised indigenous communities with regard to the ownership of land in some regional countries and dominance of subsistence lifestyle pose the greater challenges for SADC countries.

Although land regulatory framework in SADC countries has changed, for example with the introduction of land boards replacing the chieftainship and other land management structures, a larger portion of land in the majority of SADC countries remained under communal ownership (Table 4.2). The former settler states, South Africa, Zimbabwe and Namibia are the only ones that have less than 50 per cent of national land that is communally owned, which is consistent with their preference for private ownership of property. About 72 per cent (highest rate) of land in South Africa is privately owned, 14 per cent belongs to the state and only 14 per cent is communal property. While these proportions might have varied since independence, the current structure of land ownership is the most appropriate indicator of the persisting and dominant ownership culture underpinning the ownership and utilisation of economic resources. The implication of the high concentration of communal ownership in most SADC countries is that land cannot be traded nor used as collateral to access financial capital. Therefore, countries with a relatively high proportion of alienated land are expected to have relatively developed industrial structures and in turn relatively high participation in the stock market than those with high proportion of communal ownership.

Communal ownership implies a preference for traditional assets rather than financial assets, and traditional investments rather than saving through the stock market. With regard to the utilisation of economic resources, communal ownership does not encourage the innovation and creativity that are necessary for the effective use of resources to enhance industrial development and consequently participation in the stock market. It also potentially limits the capacity of entrepreneurs to use a resource as collateral to access external capital such as debt to finance company projects and expansion. This will not only impede firm growth but will also impede the development of financial markets, as the demand for capital will be low.

Currently, SADC countries are reforming their land policies to remedy the undesirable legacies of the colonial and apartheid land exploitation policies. These deprived indigenous communities of access to land, discriminated against customary tenures and land protection systems, and biased land adjudication towards market and state sectors previously controlled by white settler descendants.[20] The details differ among countries according to their colonial experiences. Discriminatory land ownership policies, practices and laws were most prominent in countries such as Namibia, South Africa and Zimbabwe where the settler population was largest. SADC countries have adopted land reformation policies that are intended to redistribute land, to ensure equitable distribution and address landlessness among the indigenous communities; improve land security and utilisation of land, the approach, which is consistent with their objective to enhance food security and alleviate poverty; and reform the biased administration and land adjudication systems.

In line with this approach, and according to the proceedings of the SADC Land Reform for Poverty Reduction in Southern Africa conference held at Gaborone, Botswana, on the 18-19th June 2008, SADC countries have, since 2001, worked towards establishing a facility that assists member states in developing and implementing land reform policies and programmes. This facility was established in 2006 with the support of United Nations Development Programme (UNDP) and the Department for International Development (DFID).

The idea of the restitution and redistribution land policy, as described by SADC countries, is consistent with the pre-colonial land tenure system, which emphasised land equity as opposed the European type of economic rational with regard to the ownership and utilisation of economic resource,. Thus, the land reform policies in SADC countries appear consistent with underlying propositions in this study. In particular, the justification of the policies supports the assertions that (a) colonial policies shaped the nature of property rights in SADC countries, and (b) while colonial policies influenced the nature of institutions in SADC countries, some dominant attributes of the traditional property rights system survived sufficiently, at least in cultural preferences, to be partially re-asserted now. Policies geared towards maximisation of social benefits and economic production are further confirmation of

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[20] The discussion on the land reforms in SADC countries is largely based on the materials from the Consultative Workshop on Land Policy in Southern Africa, Windhoek, Namibia
29 - 31 August 2007: available at:
http://www.sadc.int/fanr/environment/landreform/docs/Land%20Conference%20Report%20June%202008.pd; lasted accessed 20/09/2009.

the persistence of conflicts between indigenous and introduced property rights in SADC countries, which is further examined in following chapters.

Table 4.2: Land tenure system in SADC countries

	Statutory		
Country	Freehold /Lease hold (per cent)	State Land (per cent)	Customary/Communal (per cent)
Botswana*	5	25	70
Lesotho	44	5	95**
Malawi	8	20	72
Mozambique	3	14	80
Namibia	44	13	43
South Africa	72	14	14
Swaziland	40		60
Zambia	3	16	81
Zimbabwe	41	16	42

Source: United Nations Economic Commission for Africa (2003) report ECA/SA/EGM.Land/2003/2 entitled: Land tenure system and sustainable development in Southern Africa[21]. *Botswana Government (2002), Ministry of Land Housing and Environment, Department of Land, report entitled: Botswana national land policy[22]. **includes leasehold land in urban areas. The figures shown in the table are percentages reflecting a proportion of total land in a country held under each of the three titles.

4.4 Conclusion

This chapter has described the two pertinent features of the Bantu property rights system. It described the communality that is fundamental to the Bantu property rights system and relationships, including property relations. Communality is an inherent feature of the Bantu institutional structure and form the basis of their communal ownership and the traditional allocation of property through sharing. The motivation for transferring property is social returns, in contrast to the classical economists' market price mechanism. The chapter highlighted the pertinent attributes of the Bantu property rights system that persisted and continue to influence economic decisions and are have implications for participation in the stock markets.

The study reviewed the Bantu institutional structures, mainly the land tenure system. The analysis in this chapter shows that Bantu communities had systematic and complex property rights systems, which is reflected in their tenure system that has three levels of controls, based on the societal hierarchies of the chief, headmen, and the

[21].http://www.uneca.org/eca_resources/Publications/srdcs/Land_Tenure_Systems_and_sustainable_Development_in_Southern_Africa.pdf. Accessed on 15/01/2007.
[22] http://www.sarpn.org.za/documents/d0000079/P98_Issues%20Report.pdf accessed on 15/01/2007.

men on behalf of the family unit. The chief is responsible for the entire land occupied by the tribe, regardless of whether the land is allocated or not. The system has property rights conflict resolution mechanism centred within the family unit, then, the headman and the chief where a resolution could not be found. This promoted unity and maintained the kinship relationships.

It is argued in this chapter that the extent to which the Bantu traditional property rights systems dominate the nature of institutions indicates: (1) the extent of colonial influence on traditional institutions; (2) preferences for communal ownership and traditional assets over the financial assets; and predicts the levels of industrial development and in turn participation in the stock market. The chapter also argued that the drive for industrial development by transforming communal ownership has potential social costs.

Chapter 5 Property Rights Evolutionary Processes

5.1 Introduction

The purpose of this chapter is to identify property rights development processes in SADC countries, which the thesis argues shaped the institutional environment in which stock markets operate. It analyses the institutional processes that effected changes and influenced the nature of institutions in each SADC country. Specifically, the chapter examines: (1) the nature of colonial policy in each SADC country; (2) the nature of property rights development processes; (3) the related or consequential nature of institutions, focusing on the quality of institutions. The analysis is historical. It establishes the institutional transformation path dependence in each SADC country, identifying and linking the specific features or attributes of the contemporary institutional structure with the political, economic or social factors that influenced them. In this thesis, it is argued that the extent to which these processes varied between countries is likely to explain the variations in the nature of institutions, and the related economic and stock market outcomes. More so that, the current individual choices are influenced by the "historically derived perceptions" (North 1990:96), the institutional path once adopted, it is difficult to change it (Mwangi 2006:158).

The historical events, which this thesis asserts influenced the nature of institutions in SADC countries, involved the interaction of the European colonists who initiated the transformation or emergence of contemporary institutional structures with the indigenous Bantu communities. In general, studies do not distinguish the role and activities of the European imperial government in the colonies and consequently their implications from that of their citizenry. However, in SADC countries particularly in the British colonies, the interests of the European imperial government and their citizenry or settlers were often in conflict. For this purpose, this thesis analyses the effects of each, the European imperial government and their citizenry or settlers, where it is applicable, separately.

The objectives of this chapter systematically exclude Mauritius. Unlike other SADC countries where Europeans found countries or territories already occupied by the African communities, Mauritius had no indigenous communities prior to the arrival of the Europeans in 1500s. Although they did not settle, the Portuguese are believed to be the first Europeans to discover Mauritius in 1500s. Their span was relatively short estimated to be between 1507 and 1513. An attempt by the Dutch to colonise Mauritius between the 1638 and 1710 (with interruptions in between) failed and consequently they abandoned the island in 1710. Effective occupation of Mauritius was by France from 1715 until 1810 when they were deposed by Britain. Mauritius remained a British colony until its independence in 1968. The main motivating factor for annexing Mauritius was mainly commercial (Benedict 1965; Toussaint 1971; Moree 1998).

Although Namibia is now an independent country and like other SADC countries is formerly predominantly of Bantu origins, it is assumed for purposes of this chapter to be part of South Africa. The reason for this exclusion is that, Namibia, a formerly German colony was annexed by South Africa after being entrusted to it under the League of Nations at the end of the First World War, remained part of South Africa, which itself is formerly a British colony, until its independence in 1990. It is therefore reasonable to assume that the nature of institutions in Namibia emerged as part of South Africa.

The analysis in this chapter is arranged as follows. Section 5.2 describes the nature of colonial policies, strategies and the roles played by each settler group and imperial government in the transformation of property rights in each SADC country. This section also examines the characteristic features of colonial states that were consequential to the nature of the colonial policy in a SADC country. Section 5.3 describes the path towards creating political legitimacy by enhancing democratic processes among SADC countries and the consequential effects on the nature of institutions. Section 5.4 analyses the institutional transformation pathway in SADC countries. In section 5.5, the thesis examines the extent to which SADC countries protect private property rights; section 5.6 concludes the chapter.

5.2 The nature and effects of colonial policies

The notion that colonial policies shaped the nature of contemporary institutions in most countries around the world is agreed in both the economic and institutional literature. This section examines the nature of colonial policies in SADC countries and their impact on emergent nature of institutions or property rights regimes and the implications for the economic and stock market outcomes.

It is also generally agreed that, when the Europeans (the agents of change) arrived in the region, they found various and mostly fragmented groupings of Bantu communities. It is the common understanding that, this lack of cohesiveness among the Bantu communities, partly, facilitated the European penetration into the region (Buell 1928:163; Boateng 1978:164). The arrival of the European settlers and later the "scramble for Africa" by European governments following the 1885 Berlin conference marked a paradigm shift in the political, economic and social structures of the Bantu communities. The plentiful land became scarce while the value of the scarce African labour dwindled. The political power of chiefs was curtailed whilst the chieftainship institution itself became an instrument of the colonial rule. The latter further alienated chiefs from their people. Commercialisation and exploitation of resources by the Europeans during the colonial tenure diminished the significance of the sharing spirit within the communities, the social values, and the extended family support system, which were pillars of the African way of life (Sahn and Sarris 1994:283). It is argued in this thesis that these factors and their processes shape the institutional environment, which determines the nature of institutions and related economic outcomes.

Generally, the term "colonialism" is used to refer to the imperialist tendencies of the colonising powers with the settlers acting as their "agents". However, in the case of SADC countries, the activities and objectives of the settlers and imperial government were distinct and often in conflict, especially in the British colonies. The interest of settlers was mainly economic, while the imperial government had the political power. In its colonies, the British government maintained a dual policy that protected the conflicting rights of the indigenous communities on one hand and the private ownership rights on the other (Buell 1928; Pim 1934; Tredgold 1934). This policy created two broad types of colonies (1) settler states, where settlers had gained some degree of political autonomy; and (2) the protectorates, in which the economic rights of settlers and traditional institutions were separate and protected simultaneously. The British government administered the protectorates while retaining their sphere of influence in the settler states, which were administered by the settlers (Johnston 1895:194). Between the broad institutional arrangements, the protectorates and settler states, there were some variations with regard to the degree of political autonomy of settlers, protection of indigenous Africans communities' interests and the settler's economic interests, which varied mainly according to the perceived economic benefits in a territory.

Other territories that were non-British included the Belgian Congo (now Democratic Republic of Congo) and the two Portuguese territories, Angola and Mozambique. These were set-up mainly, for extractive purposes. The political and economic powers were centralised controlled by the imperial government. European settlement was not necessarily encouraged. Brutality was the main feature of the colonial policy towards the indigenous communities in these territories.

Among the settlers were missionaries whose strategies and objectives towards the indigenous communities slightly differed from the mainstream group dominated by entrepreneurs.

This thesis argues that these institutional differentials partly explain the disparities in the nature of institutions and concur with the variations in the economic and stock market outcomes in SADC countries.

5.2.1 The role of missionaries in the transformation process

Missionaries were among the first settlers to reach some parts of Southern Africa and were to become advocates of indigenous rights. In addition, missionaries introduced human development and other welfare programmes such as schools and hospitals. The provision of education to the African communities in the territories was left, solely, to the missionaries (Parson 1977:64; Boateng 1978:202; Kalinga 1985:66-67). Besides their welfare and social programmes, missionaries occupied a strategic position and had a significant impact on the transformation of the political, economic, and social institutions through their friendship with the indigenous chiefs. They targeted chiefs for conversion and lobbied the British government for protection of the rights of indigenous communities in the territories. For example, in the case of Lesotho, missionaries appealed to the British colonial office in Cape Town against what they termed "an unwarrantable disregard for the rights, past history, different habits, relative position, and the respective wants of the native population" by the settlers in the Union of South Africa (Buell 1928:164). King Moshoeshoe of Lesotho had invited missionaries to serve as peace brokers between Basotho and the settlers in the Union. Subsequently, Moshoeshoe not only became a Christian (which influenced the tribe as well) but also offered missionaries the right to property with the hope of finding lasting peace for the land of Basotho:

> This country is full of inhabitants. Wars have devastated it. Multitudes have perished; others are refuges in foreign lands. I remain almost alone on this rock. I have been told that you can help us. You promise to it. That is enough. It is all I want to know. We will do all you wish. The country is at your disposal. We can go through it together and you shall choose which will suit you (Lagden 1909:56).

King Moshoeshoe was not the only traditional leader who became a Christian: Chief Khama of the Bangwato tribe in Botswana was referred to by the colonial administrators as "a very real Christian" (Selborne 1914:356).

The fact that Bantu communities had embraced the missionaries' Christian philosophy despite their rejection of other forms of colonial imperialism suggests that their institutions were flexible and adaptive. It can also be inferred from the nature of their relationship with missionaries that Africans were more likely to reject any external transformation process that trivialised their institutions. Missionaries were tactical and used persuasive and propaganda techniques (Schapera 1937:360) within the context of the traditional structures. They differed from other agents of change in that they followed the traditional protocol by converting the traditional leaders first. Table 5.1 shows the distribution of religious beliefs per country as a percentage of the population. There is only a small fraction of the population that retained their traditional beliefs. Christianity has the highest following of any religion in SADC countries. Angola had the highest proportion (47 per cent) of the population still holding onto their indigenous beliefs, followed by Tanzania (35 per cent). Tanzania had the highest concentration of Muslim faith (35 per cent in mainland and 99 per cent in Zanzibar), which is explained by its historically high concentration of Arab Muslims.

Table 5.1: Religious beliefs in SADC Countries (percentage of the population)

Country	Christians	Muslims	Indigenous	Others	None
Angola	53.0		47.0		
Botswana	71.6		6.0	1.8	20.6
D.R. Congo	70.0	10.0	10.0	10.0	
Lesotho	80.0		20.0		
Malawi	79.9	12.8		3.0	4.3
Mozambique	41.3	17.8		17.8	23.1
Namibia	80.0		20.0		
South Africa	79.7	1.5		3.7	15.1
Swaziland	90.0	10.0			
Tanzania	30.0	35.0	35.0		
Zambia	75.0	24.0	1.0		
Zimbabwe	75.0	1.0	24.0		

Source: United States of America's Central Intelligence Agency (CIA) Fact Book.[23] The table shows the percentage of the total population in a country that holds or subscribes to a particular religious belief.

5.2.1.1 The effect of the mission in Malawi

Although missionaries were widespread in the region, their enterprise was more successful in Malawi than in any other territory in the region. In fact, Buell (1928:244) suggests that the Scottish mission was more successful in Malawi than in any part of Africa. The first Europeans to have a significant impact in Malawi were missionaries led by David Livingstone who arrived in the 1850s. They were followed by group planters who became involved in the cultivation of coffee. Later the missionaries brought in a Scottish trading company, the African Lakes Company, which between 1885 and 1893 bought land from several African chiefs and acquired treaties that gave it all the mining rights and the authority over mineral tax including any form of property tax (Buell 1928:244; Boateng 1978:178; Kalinga 1984:642). Part of such land was later sold to Cecil Rhodes' British South Africa Company (Kalinga 1984:642). There is a suggestion that Malawi remained underdeveloped because the British South Africa Company did not develop the acquired property rights. Rather it opted to leasing and selling land (Kalinga 1984). Like other colonial institutions, the mission was also exploitative in nature. In Malawi where they had greater influence, settlers that formed

[23] https://www.cia.gov/library/publications/the-world-factbook/geos/ao.html accessed on 20/11/2009.

only 0.1 per cent of the population (Table 5.2) owned 15.7 per cent of land (Buell 1928:513).

After establishing and institutionalising their property rights through the African Lakes Company ownership, settlers appealed to imperial institutions for protection. The protection of the settler property rights was established alongside the protection of the indigenous African rights when the territory was declared a protectorate in 1891.

Besides their economic activities, the mission transformed traditional institutions in Malawi through skills training. They established a training institute, the Livingstonia, in 1894, which provided the apprentice programmes that produced a semi-skilled labour force. It appears that the initial objective of the training institute was to train the work force to enhance the African Lakes Company's productivity. McCracken (1977:199) suggests that Livingstonia had contracted with the Africa Lakes Company to provide it with "cheap yet disciplined labour". Instead, the training offered by Livingstonia increased the mobility of labour in Malawi to the farms, mines and manufacturing sectors in South Africa and North Rhodesia (now Zimbabwe). The mobility of labour in Malawi was further exacerbated by the imposition of tax by the colonial administration in 1897. Malawian labour contributed significantly to the industrialisation of South Africa and Zimbabwe (Table 5.3; Thomas 1975:35-36; McCracken 1977:195).

5.2.2 European settlers: objectives, strategies and their effects.

It is argued in this thesis that it is not only colonial policies that influenced the nature of institutions in SADC countries but also the strategies and methods employed by the European settlers to exploit the indigenous labour resource that shaped the property rights environment in SADC countries. Strategies in this context refer to how Europeans entered the region. The objectives are what they intended to achieve, which in this case was purely economic exploitation. It is against this background that this subsection describes the entry modes, interactions between the European settlers and African communities as the Europeans pursue their objectives in the region, and the consequential outcomes.

While the aim was to articulate these objectives and strategies for each of the SADC countries included in the study, the scarcity of literature with regard to some countries, particularly the non-British colonies was a handicap. This disparity could be explained by the variation between the colonial policies in SADC countries. Unlike in the British colonies where the European settlement was encouraged and their economic interest protected by the imperial government, European settlement in non-British colonies was not encouraged, which suggests that both the political and economic powers were controlled by the imperial government. Hence, the emphasis in this subsection is mainly on the British colonies where the interest of the imperial government and that of the imperial government where discrete separable. Notwithstanding this limitation, the information presented in this sub-section is robust and provides an adequate background for the intended purpose.

The en-route to most of the southern Africa countries, most of which are members of SADC, was through the Cape of Good Hope in South Africa. European settlers entered and engulfed South Africa around the 16th century. From there, they spread across the southern Africa region through the Cape of Good Hope. This followed the establishment of a fortified base by the Dutch East India Company, founded in 1602 as a Charter Company for the Dutch Government. Later, the company started releasing its employees from their contracts and allocated them land, which they were to plough and then sell the produce to the company at a fixed price (Thompson 1995:35). Gradually the ship station grew into a settlement and by 1795 there were at least 15 000 settlers engaged in both pastoral and agricultural farming (Boateng 1978:159). Their immediate contact with the indigenous communities was with the Khokhoi, which they ultimately assimilated.

As the Dutch farmers advanced inland, trekking along the Cape frontier eastwards, they confronted the first group of the Bantu – the Xhosa tribe, who were also farmers and pastoralists. This encounter marked the beginning of the historical, long-lasting political, economic, and social conflicts between the European settlers and the indigenous Africans in the region. Similarly, the British also entered through the Cape after capturing the Cape from the Dutch. From the Cape, the Europeans trekked inland, conquering and consolidating their power over South Africa and dividing it into four provinces, Cape Town, Natal (British), Transvaal, and Orange Free State (Dutch settlers) (Thompson 1995).

The conflict between the British and the Dutch settlers, culminated in the 1899-1902 Boer war. Following their defeat, the Dutch states were reduced to the Crown colonies until 31 May 1910 when the four European provinces were unified under the 1909 South Africa Act that created the self-governing Union of South Africa. This establishment further entrenched the political power of the settlers and compromised the rights of the non-whites (Thompson 1995).

Although their political and economic structures were weakened, the Bantu communities did not disintegrate. They occupied various outer parts of the land that later formed the native reserves during the colonial rule, and Bantustans during the apartheid era from which they continued their resistance. These conflicts spread across the entire southern Africa with the expansion of the settler's political and economic interest.

From South Africa, the settlers expanded their economic interest to Botswana, Lesotho, Swaziland, Zambia (Northern Rhodesia) and Zimbabwe (Southern Rhodesia), which varied according to the perceived economic benefits in the territory. Some settled whilst others only established their business interests in the territories. Table 5.2 shows the proportion of settler population in SADC countries prior to independence. South Africa had the highest number of settlers, about 20.8 per cent of the entire population, the highest rate in SADC. Zimbabwe had the second largest number, although as a proportion of the population it was only 5.3 per cent. Lesotho followed by Botswana had the lowest number of settlers.

Table 5.2: European settlers in SADC countries

Country	Number	Population (per cent)	Census year
Angola	78826	1.9	1950
Botswana	2379	0.8	1946
DRC*	48000	0.4	1948
Lesotho	1689	0.3	1946
Malawi	3000	0.1	1948
Mozambique	48213	0.8	1950
Namibia	38504	10.6	1946
South Africa	2372690	20.8	1946
Swaziland	3201	1.7	1946
Tanzania	17884	0.2	1950/1952
Zambia	25000	1.4	1948
Zimbabwe	101000	5.3	1948

Source: United Nations Demographic year books for the years 1956 and 1960 *Non-indigenous

As the settler industrial activities increased, South Africa and to a limited extent the Zimbabwe, aided by the imperial government tax laws that pushed able bodied indigenous men into paid employment (Buell 1928:112) pulled labour from the region. The settlers' entrepreneurial skill relied heavily on African labour for the industrialising and the commercialisation of both South Africa and Zimbabwe since the 1800s. South Africa was, by far, the largest consumer of labour resources in the region. Table 5.3 shows the breakdown of the number of people, according to country of origin, who lived and worked in the South African gold mines between 1911 and 1992. In 1973, almost 79 per cent of the labour force in the gold mines came from neighbouring Southern African countries.

Table 5.3: Sources of labour for South Africa

Year	1911	1931	1951	1961	1971	1973	1975	1978	1982	1992
South Africans*****	0.4	50.0	39.4	37.8	23.4	21.5	31.6	52.6	57.2	52.7
Lesotho			11.0	12.6	17.3	20.2	23.4	23.5	22.9	25.8
Botswana			4.3	5.2	5.5	5.4	5.4	4.5	4.0	3.6
Swaziland			2.2	1.7	1.5	1.3	2.3	2.1	2.2	4.7
Mozambique			32.1	25.9	25.8	22.0	28.4	9.1	10.2	13.2
Others**			11.0	16.7	26.5	29.7	8.9	8.2	3.6	0.1
Total Foreign	0.6	50.0	60.6	62.2	76.6	78.5	68.4	47.4	42.8	47.3

Source: Lipton (1985:385) *including independent Bantustans. **mainly from Malawi. The table shows the proportion of domestic and foreign labour and the countries of origin expressed as percentage of the total number of labour force in a particular year.

5.2.2.1 Settlers in British South African protectorates

The British South African protectorates of Botswana, Lesotho and Swaziland share some institutional commonalities. Compared to other Bantu communities in SADC region who lived in small fragmented autonomous groupings, these three formed nations with centralised political power in pre-colonial times (Pim 1934:671). Economically, the three were the least attractive of all the territories (Pim 1934:669; Boateng 1978:175). This could explain why settlers did not institutionalise property rights, such as in Malawi, Zambia and Zimbabwe for instance, where the ownership and control of assets was through the chartered companies. Settlers that acquired land rights in these territories were mainly individual farmers and mineral speculators from South Africa and did not have any cohesive institutional authority to institute institutional changes. This lack of institutional capacity on the part of settlers and the imperial government protection afforded to indigenous communities in these territories are some of the factors that could have helped to preserve the traditional structures and value system.

When faced with the political threat from the Union of South Africa, the communities in the three territories appealed to the Queen of England instead for protection. While it could be argued that the decision was not voluntary but rather a matter of expediency, it does suggest, in contrast, that the traditional institutions in the three territories were adaptive and cohesive with unified decision making structures. Their decision to surrender to a colonial rule ensured compliance and thus minimised institutional conflicts that were common in other territories that persistently resisted the imperial rule. On the part of the colonial power, it created an obligation. This created a common understanding between the imperial government and the indigenous communities. For example, when dealing with the demand by the Union of South Africa to transfer the three protectorates under the South Africa Act 1909, the colonial administrators emphasised the need to protect the interest of indigenous communities. The 1909 South Africa Act that created the Union of South Africa had a provision for the transfer of Botswana, Lesotho and Swaziland to the Union of South Africa (Pim 1934:677; Tredgold 1934; Schapera 1955:195). The provision lapsed because of South Africa's failure to meet the necessary conditions such as guaranteeing the indigenous communities' right to political representation and land (Pim 1934:681; Parliamentary Committee 1934:6). According to Tredgold 1934:

> It has regarded the Native merely as a potential and actual labourer to be kept in a sort of serfdom by restrictive and irritating pass laws. It has utterly failed to realise that the native is a citizen and a unit in our state. Thus it has forfeited all right, if it ever had any, to obtain the administration of the native territories. (Tredgold 1934:383).

However, the imperial policy that protected the indigenous rights did not stop South Africa from exploiting the communities commercially as product and labour markets. South Africa established and treated the territories as product and labour markets (Pim 1934:676; Simelane 1991:721; Tsie 1996:611). Their economies were also linked to that of South Africa through a common customs union (Buell 1928:191; Pim 1934:674; Robson 1967:476). Despite the common customs union, South Africa had imposed trade restrictions on the protectorates' natural exports (Pim 1934:674; Robson 1967:476). Chances of Botswana, Lesotho and Swaziland developing their own industries under these circumstances were limited.

Although Botswana, Lesotho and Swaziland were comparatively less economically attractive, the scale differed. Swaziland and Lesotho had some considerable economic opportunities, mainly, agriculture and pastoral. Compared to Botswana, which was considered largely a desert, they had better rainfall (Selbourne (1914:359; Pim

1934:668-669). Consequently, Swaziland had a relatively high number of settlers, 3201 or 1.7 per cent of the population, compared to 2379 or 0.8 per cent of the population in Botswana population and 1609 or 0.3 per cent of the population in Lesotho (Table 5.2). Similarly, settlers owned the highest portion of land in Swaziland, 49 per cent (Kuper 1952:25), most of which by absentee landlords (Pim 1934:668). According to Pim, European settler ownership of land in Botswana was low and concentrated along the border with Namibia and Zimbabwe, while “the whole of Basotho land was native reserve” (Pim 1934:668). However, this period is was after Lesotho had lost part of its land to the Dutch settlers in the Orange Free State, as described later in the chapter. It is argued in this thesis that these institutional variations are likely to concur with the variations in the nature of institutions even for those countries with common colonial policy.

The settler strategies in three territories also differed. In Lesotho, initially, individual settlers from the neighbouring Orange Free State were granted grazing permission by the King. This marked the beginning of the long-lasting conflicts that shaped the nature of relationships and contributed to the loss of land for the nation of Lesotho. A conflict arose when settlers that were initially granted gracing rights among the indigenous communities claimed ownership of the grazing land and started to trade and sell it, against the culture of the society and the authority of the King who gave them grazing rights. The nature of the conflict was expressed when the King appealed to the colonial administrators in the Orange Free State in South Africa.

> “When we saw the whites crossed the Orange River in 1836 we wondered at it. They crossed by lots. They begged from the blacks for pasturages everywhere, one by one, in a very good soft manner. We do not think that they would appropriate the land to… telling the whites: Do not barter the land, for it is not our custom of us Basuto to do so. According to our custom, the land belongs to the people, it is bequeathed to our prosperity, it is not disposed of by bargain and also it is not our habit to define limits in it.” (quoted in Lagden 1909:195)

The land conflicts in Lesotho germinated into cross-border raids between Lesotho and the Orange Free State. Ultimately, the Orange Free State army pushed Basotho further into the mountains and expanded their territorial borders to include over half the Basotho land (Buell 1928:166). Lesotho remains land-locked and surrounded by South Africa to date. With what could be the effect of this relationship, Lesotho is the only one among the three that has had political unrest and a coup d’état occurring in

1986. Occasionally, there are political ruptures in Lesotho, in contrast to Botswana and Swaziland.

In contrast to the force used in Lesotho to obtain land ownership rights, in Swaziland, settlers obtained land in exchange for personal gifts to the chiefs. The colonial administrators expressed the land concessions in Swaziland as follows.

> "When we did assume responsibility for that country after the war, we found in existence the most amazing chaos that the white man has ever inflicted on a native tribe. Taking advantage of the love of bad champagne, which the Swazi chiefs always had, the white man had obtained concessions over every single acre of Swaziland….. Of course, that meant that if we had not assumed responsibility the Swazis would have been ousted from the whole of it. Most of these concessions had no moral authority behind them at all, but we were bound by the past acts of our government to acknowledge those rights." (quoted in Selbourne 1914:358)

These seemingly rent-seeking tendencies of the Swazi chiefs persist to date. After independence from Britain in 1968, in addition to concentrating traditional and contemporary political powers, the monarchy in Swaziland also controls the nation's property through a royal investment fund Tibiyo Taka Ngwane. The investment of this fund is spread across almost all sectors of the economy including the stock market. The fund has also been used to attract foreign capital by forming joint ventures with multinational companies. The income generated through the fund accrues to the royal family, not to the official government treasury (MacMillan 1985:654; Griffiths and Funnel 1991:60).

5.2.2.2 Settlers in British Central African protectorates

This grouping includes Malawi, Zambia and Zimbabwe. European settlement in Malawi, Zambia and Zimbabwe was predominantly British. Compared to the British South African Protectorates, to the British they were economically attractive and had greater perceived economic potential. Malawi had rich agricultural land (McCracken 1977:197) and Zambia and Zimbabwe had rich mineral deposits and good agricultural prospects (Ormsby-Gore 1925), which suggest that settlers had incentives to develop property rights. Consistent with this perceived business prospects, settlers established and institutionalised private property rights in the British Central African Protectorates prior to the British government protection.

In Zambia and Zimbabwe, (formerly North and South Rhodesia), the European settlement was led by Cecil Rhodes who occupied the two territories from South Africa, and established the British political authority and settler private property ownership rights through a chartered company, the British South Africa Company (BSAC) in 1888. The charter, which was obtained on October 29th 1889, gave the BSAC political authority, commercial interests, and the right to enter into treaties and new concessions with chiefs. In addition, it obliged the chartered company to protect the rights of indigenous communities and promote British interest in the territories.

The chartered company administered Zambia and Zimbabwe under the 1889 Order in Council until 1923 when its legitimacy to govern the affairs of Zimbabwe was successfully challenged by settlers who subsequently gained self-governing colony status from the British government. Cautious of the plight of the indigenous communities under white South African government, the imperial government allowed settlers in Zimbabwe a partial political autonomy and retained the political authority over the rights of the indigenous Africans and Zimbabwe's foreign affairs. This shift in Zimbabwe affected the status of Zambia, which was administered jointly with Zimbabwe. Zambia was transferred to the British colonial office as a British protectorate in 1924 (Ormsby-Gore 1925:166; Baxter and Hodgens 1957:444). As discussed previously, the European influence in Malawi was largely through the missionaries.

Although the two, Zambia and Zimbabwe, were administered jointly, the institutional processes in the two territories differed. In Zimbabwe, around 1897 Cecil Rhodes deposed traditional leaders, dispossessed indigenous communities of their land and established political authority and property ownership through the chartered company. The company transformed part of such land into private property that was used for commercial and industrial activities. Furthermore, the company sold part of the alienated land to the settlers, many of whom were farmers, while it retained mineral rights. The company lost its land ownership right in 1918 after a ruling by the Privy Council's Judicial Committee, on the petition brought on behalf of the indigenous Africans that ownership of land belonged to the Crown and not the company (Buell 1928:205-207; Boateng 1978).

In Zambia, Cecil Rhodes used the chartered authority to pursue commercial interests and acquire land and mineral rights through treaties from chiefs. Under the new political order, chiefs in Zambia continued to exercise their political rights within their tribal territories but were now subject to the authority of the company (Buell 1928:234: Roberts 1976:163). According to Burdette (1988:14), the aim was to limit the European settlement and administer Zambia as cheaply as possibly, relying on the African chiefs to enforce decisions. This policy explains the institutional disparities between the two territories. Settlers administered Zimbabwe while Zambia was an imperial government protectorate. Zimbabwe had relatively high European settlement (Table 5.2) and land ownership, which was 32.3 per cent in Zimbabwe compared to 6.5 per cent in Zambia (Buell 1928:513). Because of the greater influence of settlers and private ownership culture, Zimbabwe had to have relatively more developed economic organisations and economic output than Zambia.

Similarly, like in Zimbabwe, the British South African Company sold part of its land rights in Zambia to the settlers for commercial and industrial purposes, which they developed. Studies suggest that at independence, in addition to the copper mines established in the 1920s and 1930s, settlers had also developed the manufacturing industry and introduced commercial farming (Tordoff, 1977:60; Fincham 1980:298; Burdette 1977:475).

5.2.2.3 The case of Tanzania

Although Tanzania had a colonial succession, the colonial policy for both European powers, Germany to Britain, was transitory in nature. The Germans colonial policy towards the indigenous communities was extractive, that is, it was oppressive and focused on exploitation of resources (Boateng 1978:69). Germany was deposed during the First World War and replaced in Tanzania by Britain's trusteeship under the League of Nations until independence in 1961. Both the German and British colonial were transitory in that they did not encourage white settlement (Boateng 1978). For instance, there were only 17 884 Europeans, which was about 0.2 per cent of the total population in Tanzania (Table 5.2).

5.2.2.4 Belgian Congo and Portugal: Angola and Mozambique

Besides being the only non-British territories in SADC countries, the Democratic Republic of Congo (former Belgian Congo) and the two former Portuguese colonies of Angola and Mozambique have some common institutional features. The Belgian policy for the Democratic Republic of Congo and the Portuguese policy for Angola and Mozambique were extractive. It is generally agreed that the extractive policy was transitory and did not encourage European settlement in the occupied territories. According to Boateng (1978:147), Belgian policies discouraged the development of exclusive European communities. The aim of establishing an extractive state was to extract and transfer the resources from the colonies to the colonisers. Within extractive states, there was no commitment towards establishing strong property rights institutions (Boateng 1978; Acemoglu et al. 2001:1370). The indigenous communities were exploited or at a high risk of being exploited by the government (Acemoglu et al. 2002:1235).

While the colonial policy in the three territories did not encourage European settlement, it also did not debar or prevent European residency. As Table 5.2 shows, there were European residents in these territories. The difference was that settlers in the Belgian Congo and Portuguese Angola and Mozambique, unlike those in the British colonies had minimal or no influence in the administration of the colonies; they lacked political power, which rested with the imperial government. Therefore, even though they may have acquired ownership of resources, they lacked the prerequisite political power to transform institutions.

The Democratic Republic of Congo was initially held by the King of Belgium, Leopold II, as a personal estate, and was annexed in 1908 by the Belgian government following unpleasant cruelty and exploitation of Africans by the King. In Angola and Mozambique, the Portuguese were attracted by the slave trade. Portugal changed its focus after the abolition of the slave trade, and concentrated on the exploitation of labour through forced tactics and on the development of agriculture and other economic resources to support its fragile economy. The territories were designated as overseas possessions and from 1951 as provinces (Boateng 1978:66).

The Belgian strategy in the Congo differed from the Portuguese in the sense that, although the aim was the exploitation of the rich natural resources in the territory for the benefit of the mother country, they emphasised the training of Africans as artisans and semi-skilled workers, as well as infrastructural development to support their exploitation strategy (Boateng 1978:68). Despite the extractive policy, which discourages broader development initiatives in a territory, this strategy transformed Democratic Republic of Congo into an urban state. At independence in 1960, about 22.3 per cent of the population in the Democratic Republic of Congo lived in urban areas (Table 5.4).

5.2.3 Colonial policies and state formations

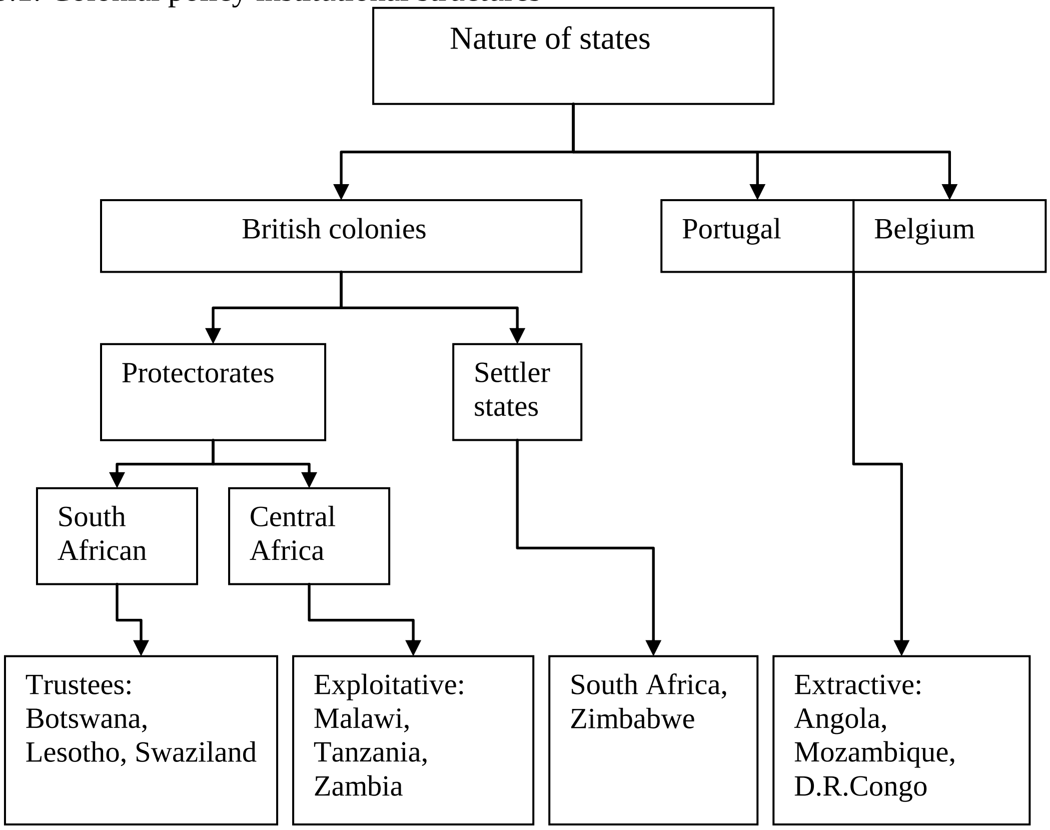
This section examines the nature of policies towards the indigenous communities and consequent nature of institutional formations for each colonial power in each SADC country. Although the Europeans' interest in SADC countries may have existed even before the 1600s, effectively, the partition of African countries, including SADC, by European powers was not until 1884-1885. In SADC countries, there were four European colonial powers, namely Britain, Portugal, Belgium and Germany. However, Germany is excluded from the analysis mainly because it was replaced in its territories at the end of the First World War. In Namibia Germany was replaced by South Africa, a former British colony, and by Britain in Tanzania. Further, as observed by Boateng (1978:70), because of the brief period, it will be difficult to assess the influence German's colonial influence in Namibia and Tanzania.

The literature identifies two extreme colonial policies consequential state formations, the settler states and the extractive states (Acemoglu et al. 2001:1370). In between these two extremes, there are possible outcomes with different institutional mixes. For SADC countries, the colonial policies' consequent nature of institutional structures are summarised in Figure 5.1. The British policy produced two types of institutional structures, the settler states and protectorates. Each of the two institutional structures could be divided into two categories. The British protection policy was echoed in the need to "to preserve tribal authority of the chiefs and the laws and customs of the people, subject to the due exercise of the power and jurisdiction of the crown and subject to the requirements of peace, order and good governance" (Schapera 1955:195).

The application of this principle seems to have varied between the two groupings of protectorates based on the nature and extent of the settler private ownership of property in the territory.

As stated earlier, there were commonalities between Portugal and Belgian colonial policies towards indigenous communities. Consequently, the nature of institutions in these countries has institutional commonalities.

Figure 5.1: Colonial policy institutional structures



5.2.3.1 Characteristic features of settler states

The settler states were British colonies in which the settlers had established and institutionalised property rights, and acquired some political autonomy from imperial government. However, the degree of political autonomy differed between the two settler states. While South Africa had acquired full autonomy, in Zimbabwe the affairs of the indigenous Africans and the foreign policy were the prerogative of the imperial government.

The political autonomy of the settlers in South Africa, their relatively high number (Table 5.2) and alienated land, which was 90.7 per cent of land in South Africa (Buell 1928:153), suggest that these settlers had greater incentives and capacity than in other SADC countries to transform institutions and establish private property institutions that protected their rights. These features predicts a much greater private ownership influence in South Africa, a relatively more developed industrial sector and greater participation in the stock market than other SADC countries.

The partial political autonomy of settlers in Zimbabwe, their number (Table 5.2) and their land ownership (5.3 per cent [Buell 1928:513], which were relatively high compared to other SADC countries except South Africa), suggest relatively greater incentives towards industrial development and participation in the stock market. However, the partial political autonomy is likely to limit the capability of the settlers to transform institutions, explore the economic resources and develop their property rights. Thus, while Zimbabwe's institutional features suggest a relatively greater incentive for industrial development, and consequently participation in the stock market, its capacity compared to South Africa will be limited. This disparity between the settler states is likely to account for the variations in the nature of their contemporary institutions and economic organisations' output.

5.2.3.2 Characteristic features of trustee states

Facing the onslaught from the Union of South Africa, the trustee states (Botswana, Lesotho and Swaziland) opted for British protection. Botswana became a British protectorate in 1885, Lesotho in 1868 and Swaziland in 1903. In Lesotho, the protection was to end the bartering of the territory by the settler state from the Union of South Africa (Lagden 1909:195; Buell 1928:166). For Swaziland, it was important to protect the gullible chiefs and subsequently to stop land-grabbing by the South African white farmers that were threatening to completely dispossess the Swazi nation (Selbourne 1914:358). For Botswana, the protection was also in the British government's interest of expanding its political authority to include Botswana in order to prevent the expansion of the Germans in the west (Namibia) and the settlers in the Union of South Africa (Selbourne 1914:355).

Thus, the nature of the British government policy in Botswana, Lesotho and Swaziland was that of trustee. In terms of the British Government's doctrine of trusteeship, the rights of the indigenous communities in the three trustee states were paramount. Where the rights of the indigenous communities in the trustee states were in conflict with the settlers, the guiding principle was that the former prevail (Buell 1928:381; Wetherell 1979:213). When dealing with matters that impact on the rights of the indigenous communities in the three trustee states, the emphasis of the colonial administration was on the "essential obligation of keeping faith with the native tribes" (Pim 1934:677). Some commentators attributes economic underdevelopment in the British South African protectorates to this trustee policy arguing that it overly protected traditional institutions, which limited the capacity of the settlers to transform institutions, explore economic resources and develop property rights (Steenkamp 1991:295).

It is argued in this thesis that the imperial government's protection in the trustee states and low settler economic activity, which is because that they were less attractive economically (Pim 1934:669; Boateng 1978:175), minimised the institutional conflicts between settler private ownership and traditional institutions, and reduced the extent of European influence on traditional institutions. Consequently, the three territories retained their political structures and traditional values. These structures re-emerged at independence and continued to influence the political and economic decisions and thus shaping the nature of the contemporary property rights institutions in the modern Botswana, Lesotho and Swaziland.

After independence Lesotho and Swaziland reverted to their pre-colonial kingdoms, whilst the polities in Botswana yielded yet another alliance, this time it was a capitalist class consisting of some Batswana chiefs, civil servants (mainly teachers) and a group of naturalised settlers (Southall 1974:157; Englebert 2000:14; Tsie 1996:602).

5.2.3.3 Characteristic features of exploitative states

The exploitative states, Malawi and Zambia, were British protectorates. The British government's protection was preceded by the establishment and institutionalising of property rights by the settlers, which they continued to exploit mainly for export (Hetherwick 1917:14; Thomas 1975:35; Tordoff 1977:60; Kalinga 1984:646 Freund

1981:486). As stated earlier, initially, Zambia was administered by the British South Africa Company, a settler chartered company that had established land and mineral ownership rights. Zambia became a British protectorate in 1924 after the chartered company lost its administrative rights over Zimbabwe to the settlers (Ormsby-Gore 1925:166; Baxter and Hodgens 1957:444). In Malawi, the initiative for the British protection was by the missionaries (Buell 1928:244; Boateng 1978:179). Tanzania, a former German colony, was transferred to Britain under the League of Nations after World War I (Bennett 1969:80).

Although the institutional transformation processes and the consequential nature of institutions in Malawi, Tanzania and Zambia were similar, the colonial policies for Tanzania differed slightly from the other two. It had a colonial succession from the German extractive policy to the British trusteeship policy. Tanzania is grouped with Malawi and Zambia because of the communalities in institutional processes and the nature of institutions.

Given the inherent conflict between settler private ownership rights and traditional institutions, it is reasonable to conclude that, under the circumstances the imperial government policy in the exploitative states had a dual role. On the one hand, it had to protect the established settler private property rights as citizens of the imperial government, and on the other, to maintain its political obligation, to protect the indigenous communities' rights. This was important and in line with the British government policy of preserving the tribal authority of the chiefs and laws and customs of the people, and the need to maintain peace, order and good governance in the territories in the best interest of the crown (Schapera 1955:195).

This thesis argues that the British government's dual policy in the exploitative states limited the capacity of the settlers to develop property rights towards industrial development. Unlike in the settler states, settlers in the exploitative states had to rely on the imperial government for the security and enforcement of property rights. Although the rights of the indigenous communities were to some extent subject to the private ownership of the settlers, the fact that the imperial government was also a custodian of indigenous rights created a certain degree of uncertainty. The protection of the indigenous institutions by the imperial government and the lack of capacity on the part of the settlers to alienate traditional institutions meant that the institutional conflicts between settlers' private ownership and indigenous institutions are likely to persist. This increased the level of uncertainty and decreased the incentive to invest long-term while encouraging a narrow economic view, where the strategy focuses on extractive than on developing resources and the infrastructure.

5.2.3.4 Characteristic features of extractive states

There are a number of communalities between the Belgian colonial policy towards the indigenous communities in the Democratic Republic of Congo and the Portuguese in Angola and Mozambique. Unlike in the British colonies European settlement was not barred but settlers had no political power. The political power and the control of economic resources, in the extractive states rested with the imperial government. Boateng (1978:65) suggests with regard to the Portuguese colonies that their "possessions were regarded as overseas extensions of the metropolitan country and the local inhabitants were given very little say in the conducted of the affairs."

The indigenous Africans were conquered and continually oppressed and exploited economically through forced labour techniques and their institutions characterised as "primitive and undesirable" (Boateng 1978:192). Generally, the extractive policies did not establish strong private property rights protection. Instead, political legitimacy was enhanced through coerciveness and the use of force. In response to indigenous resistance, colonial administrators were harsh and brutal. Like the settler states, the transition to independence was through liberation wars. Subsequent policies and the nature of property rights regimes that emerged at independence in these countries were chaotic. Civil unrest continued post-independence with rivalry along the lines between Eastern and Western political philosophies.

5.2.4 The effects of colonial policies on cultural values.

This section examines the nature and extent of influence of colonial policies and their related transformation processes on the indigenous communities' institutional structures' underlying cultural values. As discussed earlier, the underlying cultural values of the society influence their preferences and choices, including the nature of ownership rights and economic assets. It is argued in this thesis that the nature and extent of the colonial influence on the indigenous communities' cultural values concur with the shift in their institutional structures, in particular, a shift from the communal ownership towards private ownership and the preference for traditional assets towards financial assets. A shift from communal ownership towards private ownership creates incentives for individuals to utilise economic assets effectively towards industrial development, which facilitates the demand for financial capital and in turn participation in the stock market. A shift from the societies' preference for traditional assets to financial assets stimulates the desire and inspires the willingness of individuals to invest and raise finance through the stock market. Because of the lack of appropriate measures, this thesis uses urbanisation rate as a proxy and assumes the degree of colonial influence on the institutional structure and the underlying cultural values from the rate of urbanisation in a country, with emphasis on the rate just before a country's independence from the colonial power.

Urbanisation is a social process that involves a physical movement of individuals from rural to urban areas in response to changing economic factors. It involves a change in lifestyle and cultural values. This has implications for the political and economic structures of the society. As discussed earlier, the institutional structure of the society, which includes the political order and economic arrangements, is underpinned by the societies' cultural values. Therefore, a change in the societies' tastes and preferences is likely to influence their choices for the political structures and economic arrangements. In line with this proposition, the urbanisation rate, which is the percentage of people living in urban areas, would indicate the degree of a shift in the society's preferences and choices because of changes in economic circumstances. Other studies, such as Acemoglu (2002:1232) use urbanisation rate as a proxy for economic prosperity.

Urbanisation is usually associated with an increase in the level of economic activity (Laidlaw and Stockwell 1979:689) that creates employment expectations, which pulls individuals who are being pushed out of the rural areas into the cities by their immediate economic needs. However, Laidlaw and Stockwell find a weak and insignificant relationship between urbanisation and the rate of increase in real gross national product (GNP) per capita for developing economies and a moderate and significant positive relationship in the case of advanced economies. However, with regard to SADC countries, it has been suggested that the tax introduced by the colonial system might have also pushed men from rural areas to cities to look for paid employment in order to pay the tax (Buell 1928:112; Padmore1936:139), not necessarily that there was an immediate personal economic need.

Table 5.4 indicates the rate of the population for each SADC country living in urban areas at particular periods. As stated earlier, the emphasis is on the immediate period prior to a country's independence from the colonial powers. Table 5.4 should therefore be read with Table 2.1, which shows the year of independence for each SADC country. For example, South Africa had the highest rate, 48.8 per cent, of the population living in urban areas in 1990 (Table 5.4), the earliest recorded rate before its independence in 1994 (Table 2.1). This higher urbanisation rate in South Africa prior to its independence suggests much higher European settlers' economic activities and greater influence of colonial policies on traditional values. It also indicates a significant shift in society's preferences and choices from communal ownership principles to private ownership and from preference for traditional assets to financial assets. This is consistent with the higher private ownership (Table 4.2) and the number of settlers (Table 5.2), and the relatively developed stock markets (Table 2.3; 2.4) in South Africa than all other SADC countries. South Africa is therefore expected to be having a higher developed industrial sector and in turn higher participation in stock markets than all SADC countries.

In 1965, a year before its independence from Britain in 1966, Botswana had about 3.9 per cent of the population living in urban areas, which is the lowest of all SADC countries. The lower urbanisation rate for Botswana (Table 5.4) is consistent with the argument in this thesis that Botswana probably had the lowest colonial effect than any SADC country as indicated by the lower number of settlers (Table 5.2) and relatively high dominance of communal ownership as indicated by high proportion of communal ownership of land (Table 4.2). Based on this institutional consistency, Botswana is expected to be having a relatively low industrial development, which will explain the relative stagnation of the domestic stock market (Table 2.3; 2.4), and the related stock market participation. The rapid increase in the population living in urban areas in Botswana post-independence is consistent with its rapid economic growth from 1970 following the discovery of diamonds in the late 1960s. This phenomenon however is not consistent with the relatively high preference for communal ownership of land in

Botswana (Table 4.2). South Africa and Botswana are used to illustrate the institutional consistency that applies to all SADC countries.

Table 5.4: Urbanisation rate

	1950	1960	1965	1970	1975	1980	1985	1990	1995	2000
Angola	7.6	10.4	12.5	15	17.4	20.0	22.9	26.1	29.6	33.4
Botswana	2.5	3.0	3.9	8.1	12.8	18.5	28.6	42.3	47.7	50.2
D.R.C. Congo	19.1	22.3	26.1	30.3	29.5	28.7	27.9	27.9	28.7	30.3
Lesotho	1.0	3.4	6.3	8.6	10.8	13.4	16.5	17.2	17.4	17.6
Malawi	3.5	4.4	4.9	6.0	7.7	9.1	10.3	11.6	13.3	15.1
Mauritius	28.8	33.2	37.0	42.0	43.4	42.4	41.4	40.5	41.6	42.7
Mozambique	2.5	3.8	4.7	5.8	8.7	13.1	18.8	21.1	26.2	32.1
Namibia	9.4	15.0	16.7	18.6	20.6	22.8	24.7	26.6	28.6	30.9
South Africa	43.1	46.6	47.2	47.8	48.0	48.1	48.3	48.8	52.6	55.5
Swaziland	1.4	3.9	6.5	9.7	14.0	17.8	21.8	22.9	23.0	23.2
Tanzania	3.8	4.7	5.3	6.7	10.1	14.8	17.6	21.7	26.9	32.3
Zambia	10.5	18.5	24.0	30.2	34.8	39.8	39.7	39.4	37.3	35.1
Zimbabwe	10.6	12.6	14.6	17.3	19.6	22.3	25.4	29.0	31.7	33.6

Source: United Nations Department of Economics and Social Affairs Population Division[24]. Urbanisation rate refers the proportion of the total population living in urban areas in a particular year expressed as a percentage.

Specific factors that affected the social values in the region were summarised by Jones (1953) focusing on South Africa, Zimbabwe and Zambia. These included: (1) the departure of the able-bodied men from the rural based subsistence economy, which affected rural production; (2) the deterioration in some aspects of Bantu cultural values, in particular, kinship relationship and reciprocal assistance; and (3) the gradual replacement of the family, kinship, village and tribal relationships by urban-based tribal associations, in which the tribal authority had no control. Jones (1953) observed an example of this change in cultural values because of urban lifestyle among the indigenous Africans:

> A development of a new attitude among Africans towards work… In African custom life, work is a social function. It is part of a pattern of reciprocal duties. But that pattern is changed when the African comes into urban areas, where work is regarded by him as a necessity. The recompense for work in the customary life is social standing and general harmony follows from reciprocal duties carried out. In urban areas, the nexus between the worker and the employer is cash, and perhaps food and accommodation. It is an entirely new relationship, which has been created and as the Africa become accustomed to new relationship and he develops a new attitude. (Jones 1953:40).

[24] http://www.un.org/esa/population/ accessed on 07/03/2007.

5.2.4.1 The legal system

The law and finance literature explains the disparities in the development of capital markets in terms of the origins of legal laws or traditions transplanted across the world through colonialism. This body of literature links common-law legal traditions with better investor protection mechanisms and developed capital markets than civil legal traditions (La Porta et al.19997; 1998). In this section the thesis briefly examines the extent to which this link could explain the degree of capital development and consequently participation in SADC stock markets. It briefly describes the sources of the legal system in SADC countries.

Table 5.5 show the origins of the legal systems in each SADC country. While the type of legal system in each SADC country does confirm that laws spread across the region with colonialism, it raises some doubts as to the significance of the origins of the laws in SADC countries. Rather, in the SADC region, it seems the laws spread nature of the colonial policy and the economic interest of the settlers, and not necessarily with the nature of the colonial power. For instance, although South Africa was a British colony, its legal system reflects the nationalities of the two dominant settlers, the Dutch and the British, who established property rights. As discussed earlier, the interest of settlers in trustee states, Zambia, Zimbabwe and Namibia, spread from South Africa, evidently as did the legal system. Zambia is the only exception, which did not adopt the South African combination of the English Common Law and Roman Dutch Law. Portugal exported its legal system to its two territories, Angola and Mozambique. The information regarding the origin of the legal system for the Democratic Republic of Congo is not available.

Table 5.5: Sources of legal system in SADC countries

Country	Source of the legal system
Angola	Portuguese civil law system and customary law
Botswana	Roman-Dutch law and local customary law
D.R. Congo	
Lesotho	English common law and Roman-Dutch law
Malawi	English common law and customary law
Mauritius	French civil law and English common law
Mozambique	Portuguese civil law system and customary law
Namibia	Based on Roman-Dutch law and 1990 constitution
South Africa	Roman-Dutch law and English common law
Swaziland	Roman-Dutch law and traditional law and custom
Tanzania	English common law
Zambia	English common law and customary law
Zimbabwe	Roman-Dutch and English common law

Source: Central Intelligence Agency's World Fact Book for each country[25]

5.3 The concept of democracy

This section investigates the nature of democratisation processes and the likely consequential effects on institutional structures as reflected in the quality of the contemporary institutions. Quality of institutions is measured by the extent to which the political regimes allow citizens political freedoms and liberties, the extent of property rights protection and the levels of perceived corruption.

As discussed in Chapter 3, property rights are also related to the broader questions of economic growth, democracy and political and economic freedom of individuals (Prasad 2003:742). Poor political governance, undemocratic political regimes and lack of private property rights protections are some of the institutional weakness associated with poor economic performance in sub-Saharan African. The main argument is that these institutional features create uncertainty in the institutional environment, which deters long term-term investment and hence results in poor economic performance. The international financial institutions (IFI) attribute these institutional weaknesses to poor choice of policies, and emphasise a change in institutional structures and political philosophy towards democratising the political regimes, open economies, the rule of law and protection of property rights (World Bank 1994).

[25] https://www.cia.gov/library/publications/the-world-factbook/print/bc.html accessed on 07/03/2007.

From the political scientist's view, poor performance in sub-Saharan Africa is a consequence of the nature of political structures and processes (Englebert 2000:11). The argument is that at independence the African leaders established the governance system that outwardly looked like a rational-legal system, while in reality the right to rule was ascribed to the ruler not the office assigned under the constitution. African leaders did not only dominate the state apparatus but also prevailed over its laws. Officials under this political system focused on acquisition of personal wealth rather than on serving the public interest (Bratton and Van de Walle 1997:62). The effect of this was inefficiency, corruption, illicit economic rent, weak institutional capacity and low trust in state institutions (Bratton and Van de Walle 1997:62; Englebert 2000:14). These neo-patrimonial policies created an uncertain and risky economic environment that scared away investors and hence resulted in poor economic performance (Bratton and Van de Walle 1997:68).

The concept of democracy, according to Bratton and van de Walle (1997:11-13), is all about accountability by the political elites to those that have put them in a political office. Political democracy encourages participation and freedom of speech and creates political competitive environment essential for investment and economic growth. The competitive environment, on the other hand, reduces political uncertainties, provides for citizen participation in decision-making, and encourages protection of property rights and government accountability.

However, the extent to which democracy promotes economic growth is inconclusive. Rather, studies show that the impact of democracy on economic growth is through its effect on property rights and the general support for a market-based economic system. Leblang (1996:21) finds that economies in countries where private property rights were protected grew faster than in those that do not. Feng (1997:393) suggests that democracy provides a stable environment that reduces political uncertainties and enhances property rights and market competition. The consequences of a lack of democratic governance, on the other hand, is widespread corruption, high business costs, low investment and income levels and economic growth among others (Sullivan et al. 2004:1).

It appears that, although the African governments have seemingly embraced the idea of a change and democratisation of institutions, they differ with the international organisations' view and approach. From the Africans' perspective, there is a thin line between the agenda promoted by the international financial institutions and international development agencies towards democratising institutions in sub-Saharan Africa. They have expressed this view in a number of ways, including a statement such as, "do encourage and inspire us to practice good governance, but, for goodness sake, do not use your wealth and power and our poverty to try to make us in your image."[26] The fact that the statement came from Botswana, which probably had low colonial effects and currently not subject to the IFI' pressure for economic reconstruction, demonstrates the extent to which the perspective is entrenched among sub-Saharan African political leaders. It also highlights the nature and extent of the contemporary institutional conflict. This resentment to imposed institutions and the institutional transitional processes raises questions with regard to the commitment towards the transformation on the part of SADC countries.

The Commission for Africa (2005) agrees that there is need for institutional transformation towards democracy in sub-Saharan Africa, and advocates for a commitment, and common understanding from both the Africans and the international community:

> We try in this report to tell a story. It is inevitably a complex story, for many of the issues impact on one another and cannot sensibly be addressed in isolation. The path we pick through this thicket of interactions is this. We begin by telling the world how the problem looks through African eyes, for the cultures of the continent are all too easily brushed aside in the rush to offer pre-packaged solutions from the developed world. Then we look at how Africa has to change in the areas of governance and peace and security, and how the industrialised world must change its behaviour too. (Commission for Africa 2005:19).

5.3.1 Transition to democracy and the effects

Although a process of installing political leadership through a competitive election process is not a guarantee of democracy, it is however, a positive step towards democratisation. A meaningful democracy is achieved when citizens are able to extract

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[26] A statement made by Botswana president, Festus Mogae, in the address to the EU in Brussels, Quoted from International Herald Tribune– Europe, dated 17 November 2006. Title: "African leaders warn EU not to lecture them on democracy".
http://www.iht.com/articles/ap/2006/11/17/europe/EU_GEN_EU_Africa.php accessed on 25/09/2007.

accountability from the political elites through governance institutions and where public resources are used for the protection of political, civil, and economic rights including the provision of public goods (Bratton and Van de Walle 1997:10; Sullivan et al. 2004:1). Transition as defined by Bratton and Van de Walle (1997:10) refers to a shift from one type of political rule to another.

The transition from colonial rule to independence[27] in SADC countries introduced a multi-party election, which most abandoned in the 1960s towards the mid-1970s in favour of a centralised political system. This era was followed in the 1980s by economic crisis under the African centralised political regimes, which empowered the international financial institutions to intervene and forced the return to democratic electoral systems in the 1990s. Table 5.6 shows the different types of political systems that existed in SADC countries as at the year 1989, just before a shift towards democratisation in 1990s. By 1989, Botswana, Mauritius and Zimbabwe were the only ones that had a multi-party system. The regimes in SADC countries ranged from settler states to an absolute monarchy in Swaziland, which remains the only SADC country that has not returned to a multi-party system. The Democratic Republic of Congo is the first to achieve independence and the last to return to participatory elections on July 30th 2006. This transition followed decades of ethnic civil wars since independence from Belgium.

Table 5.6: Political regime transitions

Country	Colony	Independence	Regime as at 1989	Multiparty
Angola	Portugal	1975	One-party system	2002
Botswana	Britain	1966	Multiparty system	1966
D.R.Congo	Belgium	1960	One-party system	2006
Lesotho	Britain	1966	Military rule	2002
Malawi	Britain	1964	One-party system*	1994
Mauritius	Britain	1968	Multiparty system	1968
Mozambique	Portugal	1975	One-party system	1994
Namibia	S. Africa	1990	Settler state	1990
South Africa	Britain	1994	Settler state	1994
Swaziland	Britain	1968	Monarchy	-
Tanzania	Britain	1961	One-party system*	1995
Zambia	Britain	1964	One-party system*	1991
Zimbabwe	Britain	1980	Multiparty system	1980

Political regimes (see Bratton and Van de Walle 1997) * Competitive one-party system. Swaziland remains the sole Monarchy in SADC countries to date (January 2009).

[27] Independence is defined as a political transition from colonial rule (includes colonial structures such as settler states) to black majority rule.

SADC countries may have progressed towards a multi-party political system (Table 5.6) but most still fail to satisfy the basic democratic principles of upholding fundamental civil and political rights. The exceptions are Botswana and Mauritius joined by Namibia and South Africa after their independence in 1990 and 1994 respectively and finally Lesotho after its return to multi- party system in 2002 (Table 5.7).

There is a consistency between the countries based on the nature of the colonial policy and institutional outcomes. For instance, only those countries that had less institutional conflict during colonialism, either because of low colonial effects (trustee states) or alienated traditional institutions (South Africa, which includes Namibia), have a multi-party system and democratic institutions. Settlers in South Africa reduced institutional conflicts by alienating traditional institutions and establishing new ones underpinned by the European culture of private ownership, Mauritius had no indigenous communities, while Botswana and Lesotho had strong traditional institutions. Zimbabwe, which experienced settler institutional conflicts, has a multi-party system but fails to uphold democratic principles. Swaziland, like Botswana and Lesotho, had strong traditional institutions and less institutional conflicts but fails the democratic test because its political system restricts free choice of political leadership. The thesis argues that this apparent exception with regard to Swaziland should be understood in the context of the Swazi traditions, as the system is likely to reflect Swazi cultural values and to be widely accepted by the communities.

In general, these features are consistent with the argument in this study that the institutional environment in a SADC country is shaped largely by the development of property rights.

Table 5.7 presents a 31-year political freedom trend in SADC countries based on the Freedom House measures of the degree of political freedom in a country. Freedom House measures the degree of freedom by the average ratings of the political rights and civil liberties. The final rating is on a scale ranging between 1 and 7, with 1 representing the highest degree of freedom and 7 the lowest level of freedom. Ratings 1.0 to 2.5 are considered free, 3.0-5.0 partly free and 5.5-7.0 not free. In this study, political freedom ratings are converted and the nominal number 1 represents a free condition, 0.5 partly free and 0 not free (Table 5.7).

Political freedom as measured by the Freedom House indicates the extent to which an individual in a country is free to participate in legitimate political process and the liberty of individuals to exercise their right to freedom of expression, association and personal rights with less interference by government. Countries that allow citizens political freedom and civil liberties are more likely to protect private property rights than those that do not.

Generally, political freedom in the exploitative states is partially free, which suggests average to low- quality institutions and protection of private property rights. The reports covering the three, Malawi, Tanzania and Zambia, suggest that although the constitution provides for multi-party participation, their election processes are in most cases characterised by fraud, corruption and violence. In Zambia and Malawi, the transitional process from a one-party system in 1991 and 1994 respectfully were free, but it turned out that the new regime was in fact not that different from the preceding one. The weak economic policies and the high levels of corruption, especially in Malawi and Zambia, are attributed more to the personalities of the political leaders than to political ideology.

On average, extractive states rank lower than other colonial states groupings. By definition, the extractive states had weak property rights institutions. Colonial policies towards indigenous communities were also extremely oppressive. Therefore, this study concludes that the nature of political institutions – that is, the lack of political democracy in these countries – is a consequence of a colonial policy that introduced weak property rights institutions and was extremely oppressive to the indigenous communities.

The case of Zimbabwe can be described as an example of a failed transformational colonial policy and South Africa as of a success story of this process. The variations in the institutional outcomes in these countries reflect the variations in the nature of imperial colonial policy.

Table 5.7: Political freedom indices

Years	1975-77	1978-80	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Angola	0	0	0	0	0	0	0	0	0	0	0	0.5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Botswana	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
D.R.Congo	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Lesotho	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0	0	0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	1	1	1	1	1
Malawi	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	1	1	1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Mauritius	1	0.5	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Mozambiq.	0	0	0	0	0	0	0	0	0	0.	0	0.5	0.5	0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Namibia	-	-	-	-	-	-	-	-	-	0.5	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
S. Africa	0.5	0.5	0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	1	1	1	1	1	1	1	1	1	1	1	1	1
Swaziland	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tanzania	0	0	0	0	0	0	0	0	0	0	0	0	0.5	0	0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Zambia	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	1	1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Zimbabwe	0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0	0	0	0	0	0

Source: Freedom House.[28] 0 = not free, 0.5= partly free, 1 = free

[28] http://www.freedomhouse.org/template.cfm?page=1 accessed on 07/03/2007

5.3.2 Property rights protection

This section examines the extent of property rights protection and the levels of the perceived corruption in each SADC country. It investigates the nature and extent of influence of the colonial policy on private property protection and the perceived corruption levels in each SADC country. Property rights protection and perceived corruption are indicative of the quality of the nature of institutions. It is generally agreed in economic and institutional literature that strong institutions or good-quality institutional structures protect property rights better than weak do. Thus, countries that allow political freedom and liberties are expected to protect property rights and have relatively low levels of perceived corruption.

Table 5.8 presents private property rights protection indices prepared by the Heritage Foundation. A rating of property rights protection is based on a scale ranging from 1 to 5, where 1 stands for a very high level of protection, 2 high, 3 moderate, 4 low, and 5 very low private property protection. This order is reversed such that the index 5 indicates very high protection, 4 high, 3 moderate, 4 low and 5 very low. The mean score based on the number of years on which a country was rated for private property protection is included in Table 5.8. The mean facilitates the comparison between countries.

The Heritage Foundation score of property rights protection is based on broad factors that includes the extent to which laws of a country protects private property rights, government enforcement of the laws, independence of the judiciary, the level of corruption, enforcement of contracts and the likelihood of expropriation of private property by the government. The level of certainty in these factors determines the score, such that the higher the uncertainty, the lower the protection of private property rights. Heritage Foundation's private property rights protection indices are used likewise by other studies (see Classen and Laeven 2003:2408).

Table 5.8: Property rights protection indices

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	Mean
Angola	2						2	2	2	2	2	2	2
Botswana	4	4	4	4	4	4	4	4	4	4	4	4	4
D.R.Congo							1	1	2	2	2	3	1.8
Lesotho	3	3	3	3	3	3	3	3	3	3	3		3
Malawi	3	3	3	3	3	3	3	3	3	3	3	3	3
Mauritius	4	4	4	4	3	4	4	4	4				3.9
Mozambique	2	2	2	2	2	2	2	2	2	2	2	2	2
Namibia	2	2	4	4	4	4	4	4	4	4			3.6
South Africa	3	3	3	3	3	3	3	3	3	3	3	3	3
Swaziland	3	3	3	3	3	4	3	4	4	4	4	4	3.5
Tanzania	2	2	2	2	2	2	3	3	3	3	3	3	2.5
Zambia	3	3	3	3	3	3	3	3	3	3	3	3	3
Zimbabwe	1	1	1	1	1	1	2	2	2	3	3	3	1.8

Source: Heritage Foundation.[29] The table shows the private property rights protection ratings for SADC countries that have established stock markets. The rating is based on scale 1 to 5 where: 5= very high levels of protection; 4 = high levels of protection; 3 = moderate levels of protection; 2 = low levels of protection; 1 = very low levels of protections.

In general, the level of property rights protections in SADC countries is consistent with the nature of the colonial policy in a country (Table 5.8). Countries that had low colonial institutional conflicts, like the settler and trustee states, tend to have strong property rights institutions that protect property rights. The level of property rights protection in the exploitative states, which had moderates institutional conflicts, at least compared to the conflicts in the extractive states, is relatively moderate to low. The extractive states continue to rank lowest.

The high ranking of the trustee states in property rights protection, given the persistently dominant influence of traditional institutions, is consistent with the argument in this study that traditional institutions have strong property rights protection mechanisms. The main difference with the settler states is the underlying culture of ownership of property. Trustee states have a strong communal ownership culture, while economic organisations and the utilisation of economic resources in the settler states are underpinned by a strong private ownership culture. Thus, the variations in the economic and stock market between settlers and trustee states are likely to be explained by the

[29] http://www.heritage.org/Index/ accessed 07/03/2007.

variations in the property rights ownership culture rather than by property rights protection.

Lesotho, which is the lowest ranking among the trustee states, has a moderate score, a mean index of 3 for all the years under review. The report on Lesotho quoted by the Heritage Foundation states that private property rights are guaranteed. The judiciary in Lesotho is independent and has generally been allowed to carry out its role effectively, even during the years of military rule. The main weakness for Lesotho is the security law, which gives the police excessive powers and restricts the right of assembly.

For the settler states the main property rights weakness is associated with the threat of expropriation of white-owned land by the current governments, which are former liberation movements. In the case of Namibia, the threat increased with the change in political leadership following the election of Hifikepunye Pohamba in 2004 as the new president, which marked a shift in a country's land policy. According to Heritage Foundation reports, Pohamba demonstrated the determination to compulsorily purchase the white-owned farms for redistribution to the landless black communities. The threat of expropriation of property, according to the reports, is significant. In Zimbabwe, the weakness in private property rights protection could be associated with the current government policy that provides for the expropriation of white-owned land.

The colonial policy towards indigenous communities in exploitative states was moderate in that it protected the two conflicting private property rights of the settlers and the indigenous communities' rights simultaneously. This duality might have ensured the persistence of the institutional conflicts as stated earlier, but they were moderate as compared to extractive and settler states where the colonial policy towards indigenous communities was extremely oppressive. The indigenous community's resistance to colonial rule was comparatively moderate. That is, their resistance was not as aggressive as in the settler and extractive states, and not as subtle as in trustee states. Similarly, the level of private property protection in these countries is also moderate to low.

The consistently low ranking of extractive states in all the institutional assessments in this thesis, including the extent to which they protect private property rights, reflects the oppressive nature of the colonial policy towards indigenous communities and of extractive property rights institutions that did not establish strong private property rights protection mechanisms.

Table 5.9 shows the Transparency International corruption perception indices (CPI) for 2006. A country's corruption perception index (CPI) score as constructed by Transparency International is based on a scale ranging from 0 to 10, with 0 indicating high levels of perceived corruption. The higher the CPI score, the lower the perceived corruption level and the higher the quality of institutions.

Table 5.9: Transparency International Corruption Perceptions Index 2006

Country rank	Country	CPI 2006 Score	Surveys Used	Confidence range
142	Angola	2.2	5	1.9 - 2.4
37	Botswana	5.6	6	4.8 - 6.6
156	D.R. Congo	2.0	4	1.8 - 2.2
79	Lesotho	3.2	5	2.9 - 3.6
105	Malawi	2.7	7	2.5 - 3.0
42	Mauritius	5.1	5	4.1 - 6.3
99	Mozambique	2.8	7	2.5 - 3.0
55	Namibia	4.1	6	3.6 - 4.9
51	South Africa	4.6	8	4.1 - 5.1
121	Swaziland	2.5	3	2.2 - 2.7
93	Tanzania	2.9	7	2.7 - 3.1
111	Zambia	2.6	6	2.1 - 3.0
130	Zimbabwe	2.4	7	2.0 - 2.8

Source: Transparency International.[30] The CPI score is based on a rating scale of 0 – 10 where 0 reflects the highest levels of perceived corruption in a country and 10 the lowest perceived levels of corruption.

The corruption perception indices show a pattern that is consistent with the nature of colonial policy and consequent institutional formations. That is, those countries that had low institutional conflicts also have low perceived corruption levels. These countries include Botswana, which ranks 37 out of 163 countries of the world (Table 5.8), followed by Mauritius and then South Africa and Namibia. They do not only rank high in SADC region but also in the whole of Africa. In those countries where the nature of institutions is dominated by institutional conflicts – the exploitative and extractive states and Zimbabwe – the level of corruption is relatively high.

[30] http://www.transparency.org/policy_research/surveys_indices/cpi accessed on 07/03/2007.

5.4 Institutional transformation processes and the effects

The purpose in this section is to highlight the nature and the likely outcomes of the institutional transformation processes in each SADC country. In general, the development of property rights in SADC countries is driven largely by exogenous institutional factors. A shift from one political or economic arrangement or one set of rules to another is largely driven by external institutional process. The institutional transformation processes tends to be systematic and consistent with the nature of colonial policy towards indigenous communities in each country from the colonial era through to the post independence period.

The process starts with the arrival of the colonial powers, which imposed the new political order underpinned largely by a culture of private ownership. Although the indigenous communities could not stop the changes, they maintained their cohesiveness and continually rejected the changes. For example, during the colonial rule, the extent and nature of indigenous communities' resistance varied mainly according to the degree of colonial economic extraction and political oppression. Where the indigenous communities faced extreme economic exploitation and political repression (settler and extractive states), they formed armed liberation movements, and fought the colonial regime until independence. Where the exploitation was predominantly economic (exploitative states) – that is, the indigenous institutions were afforded some degree of protection – the shift to independence was preceded by peaceful pressure and protests by indigenous communities through the national movements. Elsewhere, in the trustee states where unlike in other SADC countries where colonial rule was imposed, the indigenous communities had opted for colonial rule, the transition was virtually smooth. The process towards independence in the trustee states was at most subtle; if anything, the transition was motivated by the winds of change across the sub-Saharan African continent. These variations are likely to explain the variations in the economic and stock market outcomes and consequently participation in the SADC stock markets.

Figure 5.2 summarises the processes and shows institutional transformation trends or pathways within the SADC countries. In general, institutional transitions in SADC countries are largely driven by exogenous institutional factors. A shift from a pre-colonial Bantu arrangement to a colonial state was instituted through a colonial policy. The processes towards independence have been explained in the preceding paragraph.

After independence, the extractive and exploitative states abandoned the multi-party system inherited from the colonial government in favour of a more centralised one-party system. Swaziland opted for an absolute monarchy instead. Although Lesotho was once under military rule, it did not necessarily abandon the multi-party system. The settler states and Botswana retain the multi-party system to date.

The subsequent economic crisis in the exploitative states exposed the one-party African regimes to international and domestic pressure. They were forced to comply with the international financial institutions' demand for economic reforms that included instituting competitive electoral processes and the creation of competitive market-based economies, including the establishment of stock markets (World Bank 1994:17; Sahn and Sarris 1994:279; Bratton and Van De Walle 1997:103; Ndulu and O'Connell 1999:45; Costello 1996:123).

As for the extractive states, a shift from a one-party African regime to a multi-party system was preceded by internal political conflicts and civil wars.

There are some similarities between the settler and the trustee states. For instance, their institutions have a strong underlying culture of property rights. However, the type of the underlying culture of property rights differed. The settler states had a strong European private ownership culture that promoted the private ownership of property, while in the trustee states traditional communal ownership had a greater influence.

The incentive to create property rights institutions with strong protective mechanisms in the extractive states was lacking while in the exploitative states it was limited by the dualism of the imperial government policy.

While there may be some variations and exceptions, this study argues that in general, these institutional diversities partly explain the variations in the nature and institutional outcomes in SADC countries.

Figure 5.2: Property rights development path

Country	Colony		Colonial State		Independence	One-party		Multi-party
Angola	Portugal	Imposed	Extractive	Liberation			civil unrest	
Botswana	Britain	Expedient	Trustee					
D.R.Congo	Belgium	Imposed	Extractive	Liberation			civil unrest	
Lesotho	Britain	Expediency	Trustee			(had brief period under military rule)		
Malawi	Britain	Imposed	Exploitative	Nationalists			pressure	
Mozambique	Portugal	Imposed	Extractive	Liberation			civil unrest	
Namibia	South Africa	Imposed	Settler	Liberation				
S. Africa	Britain	Imposed	Settler	Liberation				
Swaziland	Britain	Expediency	Trustee			(monarchy)		
Tanzania	Britain	Imposed	Exploitative	Nationalists			pressure	
Zambia	Britain	Imposed	Exploitative	Nationalists			pressure	
Zimbabwe	Britain	Imposed	Settler	Liberation				

5.6 Conclusion

This chapter examined the property rights evolutionary processes in SADC countries. It has established the property rights development patterns and development path dependence for each SADC country, from the pre-colonial era, through colonial rule, to post-independence African regimes. Each SADC country has a cohesive institutional development path, with clear patterns that reflect a country's colonial policy. The quality of property rights institutions, in particular, the extent to which the government allows citizens the freedom of political choice and protection of private property rights, and the perceived corruption levels, tends to vary according to the nature of the colonial policy. In general, those countries that had lower institutional conflicts have strong institutions that protect the political and property rights with relatively low perceived corruption levels.

The colonial policy varied between territories and produced different kinds of state formations with different institutional features. The colonial policy outcomes in SADC countries are summarised as settlers, trustees, exploitative and extractive states. In the settler states, European settlers had established property rights and acquired political autonomy at varying degrees. These countries tend to have dominant private ownership culture, while the quality of institutions varied according to the extent of political autonomy. Compared to other SADC countries, because of the dominant private ownership culture, the settler states are expected to have relatively high economic and stock market outcomes and consequently relatively high participation in the stock markets. However, the effectiveness of private ownership traditions in motivating efficiency in the utilisation of economic resources is likely to vary with the variations in the nature of the colonial policy and the subsequent nature of institutions.

Because of their perceived low economic prospects and the subsequent nature of the colonial policy, the trustee states had comparatively low colonial institutional conflicts. Consequently, the institutions emerging in these countries after they acquired independence from Britain is underpinned by the influence of strong traditional institutions. Although the degree differs, in general trustee states tend to have relatively strong institutions that guarantee political and protect property rights. Notwithstanding the quality of institutions, the level of stock market participation in the trustee states is expected to be relatively low mainly because of the dominant communality influence.

The colonial policy in the exploitative states was to some extent self-defeating. Although the settlers had institutionalised property rights, they lacked the political autonomy to transform institutions. The imperial government policy that protected the conflicting private ownership rights of the European settlers and indigenous communities' traditional institutions encouraged the persistence of inherent institutional conflicts. Consistent with this policy, the nature of indigenous communities' resistance to colonial rule and the consequent quality of institutions in the exploitative states can be categorised as moderate to low. This dominant weakness of institutions is likely to discourage long-term investment and hence low participation in domestic stock markets.

The colonial policy towards indigenous communities in the extractive states was extremely oppressive and did very little to establish strong property rights institutions. Institutional transformation processes were characterised, civil unrests and institutional conflicts that clouded property rights institutions in a country. Similarly, extractive states tend to have poor quality institutions, which ranks lower than other SADC countries. This extreme property rights institutions weakness is likely to increase the investment risk and impact negatively on long-term investment and economic organisations outcome. Participation in stock markets under these circumstances is likely to be low.

Chapter 6 Economic Capacity and Business Environment

6.1 Introduction

This chapter is mainly concerned with the economic capacity of each SADC country to establish a viable stock market. It focuses on the demand for and supply of capital in relation to business opportunities. The analysis is in three parts. It examines: (1) the economic capacity of a country to enhance the demand for and supply of capital; (2) the nature of the business environment and the related implications for participation in the stock market, based on the South Africa companies' annual reports; and (3) the extent to which the economic outcomes in each country concur with the nature of institutions and their development processes.

Economic capacity of a country is defined in terms of the size of the economy, the level of savings, and the industrial development and output as measured by the manufacturing value added to the gross domestic product (GDP). Population size and GDP indicates the scale for demand and supply of capital. Aggregate saving levels are proxy for the capacity of the economy to supply the necessary capital essential to enhance participation in the stock market. The manufacturing value added is a proxy for the level of production activity and the degree of industrial development. In addition, the credit offered to the private sector expressed as a percentage of GDP is used as a proxy for the extent of private sector involvement in the economy. From the classical economics viewpoint, the private sector has greater incentives and capacity to enhance production, which facilitates the demand for capital and in turn participation in the stock market.

The chapter is arranged as follows. Section 6.2 describes data sources while in section 6.3 economic capacity variables are described and discussed. Section 6.4 is the analysis of the business environment in SADC countries based on company reports. Section 6.5

examines the effect of the development of property rights processes and the nature of institutions on economic outcomes. Section 6.6 concludes the chapter.

6.2 Data sources and description

Data on gross domestic product (GDP) is obtained from the United Nations Conference on Trade and Development (UNCTAD) handbook of statistics (2006-07). Gross domestic savings is obtained from the African Development Bank (ADB) Selected Statistics on African Countries 2007 (volume xxvi). Credit offered to the private sector and the income distribution measure (GINI coefficient) are from the World Bank (World Development Indicators, 2006). The GINI coefficient for Mauritius is obtained from the American Central Intelligence Agency, The World Fact Book.[31] The trade flow data is obtained from the SADC website and is available for the years 1998 to 2003. This data is limited in that it does not include all countries. The trade data flow from South Africa, Zimbabwe and Namibia is not available. The GDP and population ranking is for 2007 revised in September 2008, obtained from the World Bank.[32]

The period for data is determined by availability of data. For example, the starting point is determined by the gross savings data, which is only available for all countries from 1987 while 2006 is the latest period where all the data is available.

6.3 Description of the economic capacity

This section describes and discusses the economic outcome variables, used in this study as a proxy of the capacity of the economy to enhance stock market participation. The focus is on the key economic factors that indicate the level of demand and supply of capital, which facilitates participation in the stock market.

[31] GINI for Mauritius is not available in World Bank, World Development Indicators. It is from: https://www.cia.gov/library/publications/the-world-factbook/docs/notesanddefs.html#2172 accessed on 01/05/08.

[32] http://web.worldbank.org/wbsite/external/datastatistics/0,,contentmdk:20399244~menupk:1504474~pagepk:64133150~pipk:64133175~thesitepk:239419,00.html#ranking accessed on 05/01/09.

6.3.1 Size of the economy

The size of the economy as measured by the population size and the country's overall output, GDP, gives an indication of the scale of consumption, which determines the level of production output and hence the demand for long-term capital. The population size also indicates the number of prospective participants in a stock market and the likely supply of essential human capital to facilitate productive activities. The GDP per capita indicates the average economic capacity of the individual to participate in the stock market. In the absence of the standard benchmark, the study assumes that the larger the size of the economic measure, the larger a country's economic capacity.

Size of the economy is an important capacity measure for participation in the stock market, more so that production activities in SADC countries are likely to be driven largely by internal demand. SADC countries lack the competitiveness to compete in the global market, which requires productive efficiency to ensure product quality and lower production costs. Therefore, they are less likely to expand production through productive efficiency targeting global markets. The World Economic Forum Global Competitive Report (2007) suggests that SADC economies with the exception of South Africa, Mauritius and Namibia are driven by primary resources. [33] They lack productive efficiency, innovation and creativity essential to compete in the global market. Under these circumstances, any industrial production expansion is likely to depend largely on internal consumption of which population size and GDP are proxies. The three countries, South Africa, Mauritius and Namibia are the only ones that had dominant Western-type private ownership influence and low institutional conflicts. This assessment by the World Economic Forum is therefore consistent with the argument in this thesis that the nature of rights attached to ownership and utilisation of property and the quality of institutions, which is determined by the extent of institutional conflicts explain the variations in the economic and stock market outcomes among SADC countries. It is argued in this thesis that private ownership as compared to communal ownership provides greater incentives for effective use of economic resources, and that the quality of institutions determine the degree of certainty, which in turn encourage long-term savings and investment.

[33] http://www.weforum.org/pdf/Global_Competitiveness_Reports/Reports/gcr_2007/chapter1.pdf accessed on 20/05/2008.

The population size, GDP values and the GDP per capita for SADC countries are presented in Table 6.1. These measures show a wide variation in terms of the size of the economy as measured by both GDP and Population, and the robustness of the size as measured by GDP per person. South Africa is the largest economy in SADC countries. It has the highest GDP and population. Its position when compared to the second ranking in size, Tanzania, is robust. South Africa is not only large but also has a relatively strong economy with an average GDP per capita of US$3585.7 compared to the second ranking, Tanzania, which has a GDP per capita of US$ 287.9. Compared to other countries in the world, South Africa is among the top 26 in terms of population size and ranks 28 in terms of GDP (Table 6.1: panel B). This suggests a robust capacity of the South African economy to sustain a viable stock market.

Excluding South Africa, SADC countries can be grouped into two categories based on the population size. The first category is that of small countries with a population of less than 2 million (Table 6.1 panel A). This group includes Botswana, Mauritius, Namibia and Swaziland. For these countries, population size is one of the critical factors with regard to participation in the stock market. Their GDP per capita is relatively high, which suggests a relatively robust economy. In general, these countries also tend to have low institutional conflicts and good-quality institutions when compared to the second grouping of Malawi, Mozambique, Tanzania, Zambia and Zimbabwe (Table 5.7; 5.8; 5.9), which suggests that quality of institutions matters for economic performance.

The second category is those SADC countries with medium sized population ranging from 11 million in Zambia to 35.5 million in Tanzania (Table 6.1 panel A). Countries that fall within this category are Malawi, Mozambique, Tanzania, Zambia and Zimbabwe. All countries in this grouping are within the top 50 per cent largest countries of the world based on the size of their population. Therefore, based on the population size, it could be argued that Malawi, Mozambique, Tanzania, Zambia and Zimbabwe have at least the minimum capacity to enhance participation in the stock market. The case of Australia may be useful to illustrate this point. The Australian population is below the population in Tanzania and Mozambique. It ranks 50 in the in World Bank's 2007 country ranking by population size. In April 2008, there were 2002 domestic listed companies on the Australian Securities Exchange. Therefore, all things being equal, based on their population size, these SADC countries could enhance a slightly higher participation than the current listing (Table 2.3).

Despite their relatively large population size, the level of output (GDP), for Malawi, Mozambique, Tanzania, Zambia and Zimbabwe is relatively low (Table 6.1 panel A). It is likely to limit their capacity to enhance participation in the stock market. Their per capita income is significantly lower than other SADC countries. The high ranking in terms of the population size (Table 6.1 panel B) for these countries is not matched by the size of the overall output or GDP.

Table 6.1: [panel A] Average GDP and population (1997-2006)

	GDP (USD mn)	Population (mn)	GDP per capita
Botswana	6273.2	1.7	3587.6
Malawi	1864.0	11.9	156.9
Mauritius	5125.1	1.2	4259.2
Mozambique	4773.4	18.5	258.5
Namibia	4280.0	1.9	2310.7
South Africa	165148.2	46.1	3585.7
Swaziland	1786.7	1.0	1749.3
Tanzania	10285.3	35.7	287.9
Zambia	4888.6	11.0	445.3
Zimbabwe	4992.7	12.7	393.2

Source: GDP is obtained from the United Nations Conference on Trade and Development (UNCTAD) Handbook of statistics 2006-2007 – online[34]. Population is also from UNCTAD Handbook of statics 2006-2007. GDP per capita is equal to the average GDP (1997-2006) divided by the average population (1997-2006).

[34] http://www.unctad.org accessed on 15/05/2008.

Table 6.1: [panel B] Country size ranking based on GDP and population for 2007

Country	GDP	Population
Botswana	105	143
Malawi	142	63
Mauritius	129	149
Mozambique	120	49
Namibia	127	139
South Africa	28	26
Swaziland	148	150
Tanzania	95	30
Zambia	108	69
Zimbabwe	148	64
World Total	185	207

Source: World Bank Statistics.[35] GDP and Population here reflect the relative size of the economy of a country compared to the total number of countries in the world, which is 185 for GDP and 207 with respect to population size. The ranking is for 2007. It was prepared by the World Bank and used in this thesis to highlight the capacity of a country to enhance participation in the stock market.

6.3.2 Savings capacity

This section examines the saving capacity of SADC countries to supply long-term capital that facilitates participation in the stock market. The literature describes the role of the stock market as that of mobilising savings from various savers, convert savings into financial capital and allocate it to entrepreneurs that are able to generate higher returns for the savers (Mirowski 1981:566; Singh 1999:348-349). Thus, the level of savings indicates the extent to which the economy is likely to facilitate a funding of firms through the stock market, which in turn enhance participation in the stock market. The availability of savings in the economy and the willingness of the savers to channel their savings through the stock market provide entrepreneurs the opportunity to finance their firms' projects and growth through the stock market. Ideally, the level of private savings would have been an appropriate proxy as it is the most likely to be mobilised and allocated by the stock market. Unfortunately, the data on private savings in SADC countries is not available. Instead, this thesis uses gross domestic savings per capita presented in Table 6.2, as a proxy. The savings per capita used is equal to a country's gross domestic savings in US dollars divided by its population.

Table 6.3 shows the income distribution in each SADC country, as measured by the GINI coefficient. The distribution of income in Table 6.3 is a percentage share of

[35] http://siteresources.worldbank.org/datastatistics/resources/gdp.pdf accessed on 05/01/09.
[35] http://siteresources.worldbank.org/datastatistics/resources/pop.pdf accessed on 05/01/09.

income or consumption accruing to the proportion of the population, categorised by income or consumption levels. The GINI coefficient indicates the income gap or concentration of income in the society. It is used in this thesis as a proxy for the capacity of an individual member of the society to save and consequently participate in the stock market by buying shares in companies. Income distribution complements the savings per capita in that it shows the spread of wealth in the society, which indicates the scale and the capacity of individuals to participate in the stock market.

Those SADC countries with relatively high savings, namely, Botswana, Mauritius, South Africa and Namibia (Table 6.2), also rank higher than other member countries in terms of the quality of institutions (Table 5.7, 5.8, 5.9). This outcome is consistent with the argument in this thesis that the quality of institutions determines the incentives for individuals to defer consumption now and invest long-term. While the level of savings in other SADC countries is generally low and declining, in Botswana, Mauritius, Namibia and South Africa there is a steady growth. Although the level of savings in Swaziland is relatively low, it is slightly higher than those with dominant institutional conflict, namely Malawi, Mozambique, Tanzania, Zambia and Zimbabwe. The low quality of institutions for Swaziland as explained in Chapter 5 is associated with its traditions where the monarchy have absolute political power and denies citizens political rights rather than with the colonial legacy. While the Swaziland political culture may be viewed by external investors as risky, it is likely that internally, it is largely acceptable and thus poses no risk, hence the average levels of savings.

This level of variation in savings, which is consistent with the quality of institutions suggests that the extent to which individuals would be willing to defer consumption now and save long-term depends on the degree of certainty they have on the institutional structure to protect them from expropriation of the returns and value of their property rights. It accentuates the importance of good-quality institutions for developing countries to encourage long-term saving and investment. A confidence in the political institutions to protect the rights of individuals, including the control of corruption, is important as it provides incentives for the investors to invest long-term and entrepreneurs to raise capital at lower cost. This, in turn, facilitates the funding of company projects long-term, company growth, enhances the demand and supply for capital, and the demand for, and supply of shares.

Table 6.2: Gross domestic saving per capita (US$)

	1987 -1991	1992 -1996	1997 -2001	2002 -2006	Mean
Botswana	1045.5	1019.9	1463.2	2520.2	1512.2
Malawi	18.3	2.8	4.9	-20.4	1.4
Mauritius	553.9	803.6	927.4	950.3	808.8
Mozambique	-16.3	-16.3	17.0	60.9	11.4
Namibia	165.6	275.3	246.5	615.2	325.7
South Africa	685.4	640.7	552.5	722.0	650.2
Swaziland	139.0	-6.8	64.2	243.2	109.9
Tanzania	4.1	1.9	14.6	41.2	15.5
Zambia	52.1	28.4	20.9	98.9	50.1
Zimbabwe	142.6	120.5	58.0	-54.0	66.8

Source: Savings is from the African Development Bank, Economic and Social Division's Selected Statistics on Africa 2007, Volume XXVI. [36] Population is from the United Nations Conference on Trade and Development handbook of statistics 2006- 2007. [37] The savings per capita is equal to the gross domestic savings in US dollars divided by the population for each of the 5-year periods. The mean is the average of the 5 year averages.

However, it is doubtful that the high saving levels in Botswana and Namibia, including Swaziland, given their small population and the highly skewed income distribution, will motivate high participation in the domestic stock market. The income gap in these countries as measured by the GINI coefficient (Table 6.3) is among the highest in the world. Namibia has the highest income inequality gap in the world. Botswana ranks third highest and Swaziland is in sixth position. In the case of Namibia, 78.7 per cent of wealth is concentrated in only 20 per cent of the population. In Botswana, Swaziland and South Africa, the wealthiest 20 per cent of their populations own 70.3, 64.4 and 62.2 per cent respectively. Mauritius, Tanzania and Mozambique are the only SADC countries in which the GINI coefficient is less than the average world index. Participation in stock markets is a function of numbers and financial capacity. As such, this high wealth concentration in few hands, given the relatively low population size in these countries, would limit the number of the potential participants in stock markets.

[36] http://www.afdb.org/pls/portal/docs/page/adb_admin_pg/documents/statistics/selected%202007_web_0.pdf. accessed on 15/05/2008.
[37] http://www.unctad.org accessed on 15/05/2008.

Table 6.3: Income distribution

	GINI index	Lowest 20 %	Second 20 %	Third 20 %	Fourth 20 %	Highest 20 %
Botswana	63.0	2.2	4.9	8.2	14.4	70.3
Malawi	50.0	4.9	8.5	12.3	18.3	56.1
Mauritius	39.0					
Mozambique	39.6	6.5	10.8	15.1	21.1	46.5
Namibia	74.3	1.4	3.0	5.4	11.5	78.7
South Africa	57.8	3.5	6.3	10.0	18.0	62.2
Swaziland	60.9	2.7	5.8	10.0	17.1	64.4
Tanzania	34.6	7.3	12.0	16.1	22.3	42.4
Zambia	42.1	6.1	10.2	14.2	20.7	48.8
Zimbabwe	50.1	4.6	8.1	12.2	19.3	55.7

World GINI index - Descriptive statistics

N	Mean	Standard Dev.	Min	Max
126	40.35	10.55	19	74.3

Source: World Bank (World Development Indicators 2006).[38] Source: GINI coefficient is a measure of inequality of income or wealth distribution. It is a ratio with values ranging between 0 and 1, where 0 indicates a perfect equality and 1 perfect inequality. Inequality in the distribution of income is reflected in the percentage shares of income or consumption accruing to a proportion of the population ranked by income or consumption levels. [39]

6.3.3 Industrial capacity.

The general view is that industrial production activities as compared to commercial activities have greater capacity to create demand for long-term capital (Pontecorvo 1958:561), which in turn facilitates participation in the stock market. In keeping with this precept, this thesis uses the manufacturing value added (MVA) as a proxy for the scale of industrial output and the level of industrial development. A manufacturing value added contribution per person indicates the level of industrial production. An increase in the production activities increases the demand for capital, which in turn enhances participation in the stock market. A manufacturing sector contribution to GDP indicates the degree of industrial development in a country and hence the level of demand for capital. The higher manufacturing sector contribution to GDP is indicative of the higher demand for financial capital and signals a relatively high participation in the stock market. In this thesis, a combination of the manufacturing sector percentage contribution to GDP and the manufacturing value added per capita indicates the industrial capacity of a country to enhance participation in the stock market through the

[38] http://devdata.worldbank.org/wdi2006/contents/index2.htm accessed on 15/05/2008.
[39] World Bank. http://devdata.worldbank.org/wdi2006/contents/index2.htm accessed on 15/05/2008.

production of goods. Thus a higher percentage of manufacturing sector contribution to GDP and higher manufacturing sector contribution per capita indicates high capacity of the economy to enhance participation in the stock market.

Table 6.4 presents the overall GDP contribution per sector over the 20 year period staggered in 10 years. This table shows the structure of the economy for each SADC country. In general, SADC countries are increasingly highly reliant on the services sector and the primary sectors of agriculture or mining. In all, except Swaziland and Tanzania, the service sector contribution to GDP is on the increase, while the manufacturing sector either has stagnated or is declining. The economies of Malawi and Tanzania in particular, are equally heavily reliant on agriculture, while Botswana's economic output is dominated by the mining sector. These economic structures are likely to undermine the capacity of regional economies to sustain viable stock markets, in particularly those SADC countries that are extremely small, namely Botswana, Namibia, Swaziland, and Mauritius.

The trend and patterns of the manufacturing value added to GDP and manufacturing value added per capita are presented in Table 6.5, panels A and B, which shows the manufacturing value added per capita. Panel A of Table 6.5 reports the 20-year manufacturing sector contribution to GDP in percentage terms in five year intervals to show growth pattern. Panel B of Table 6.5 shows the per-capita manufacturing value added to GDP expressed in US dollars.

This thesis uses the criterion set by the United Nations Industrial Development Organisation (UNIDO) to benchmark a country's levels of industrial development. According to UNIDO, a country with at least 20 per cent of GDP coming from the manufacturing sector has a "fairly well developed industrial structure". Those with the manufacturing sector contribution ranging from 10 to 20 per cent of GDP are categorised as in an intermediate stage of industrial development and those with manufacturing contributing below 10 per cent of GDP are categorised as in an early stage of industrial development.[40] This thesis adopts the 20 per cent UNIDO benchmark of a fairly developed industrial structure as the minimum level of industrial

[40] http://www.unido.org/index.php?id=128&L=2&tx_ttnews%5Btt_news%5D=34&tx_ttnews%5BbackPid%5D=6&cHash=752e04f523 accessed on 02/07/2008.

development required to generate at least the minimum required production activities essential to create minimum demand for capital. The phrase “fairly well developed…” suggest that countries have achieved a certain degree of industrial development but are not that well developed industrially.

Based on UNIDO classification, only Mauritius, South Africa and Swaziland have a “fairly well developed industrial structure”. This outcome is consistent with each country’s relatively high manufacturing sector contribution per person (Table 6.5). However, while the production capacity for Mauritius and South Africa is consistent with that of a fairly developed industrial sector as described by UNIDO, for Swaziland the level is low and does not necessarily tally with its seemingly relatively developed industrial sector. This finding is consistent with the institutional path dependence for these countries and in line with property rights theory prediction with regard to the effect of the structure of property rights ownership. For instance, the institutional development path dependence for South Africa and Mauritius suggests much greater private ownership influence on economic organisations. For this type of property ownership structure, property rights theory predicts greater incentives for effective utilisation of economic resources towards industrial development and increased production.

With regard to Swaziland, the seemingly more developed industrial sector (Table 6.5 panel A) is not consistent with its relatively low levels of the manufacturing value added per capita (Table 6.5 panel B). It is also seemingly not consistent with its institutional development path, which suggests a low colonial influence and subsequently low incentives towards industrial development. This institutional inconsistency with regard to Swaziland is more likely to be explained by its institutional peculiarities. The issue is examined in detail later in this chapter.

The degree of industrial development for Namibia, which ranks fourth after Mauritius, South Africa and Swaziland in terms of the manufacturing value added per capita, is also seemingly inconsistent with its institutional development path dependence. Namibia, which remained part of South Africa until independence in 1990 was assumed to have had relatively high settler private ownership and therefore should have relatively high industrial development. This aspect is also examined in detail later in the chapter.

While the level of industrialisation in other SADC countries is generally low, Zimbabwe and Zambia and to some extent Malawi, which inherited a relatively developed industrial sector from the colonial powers (Chapter 5), are in fact deindustrialising. The manufacturing sector contribution in these countries is constantly declining over the 20-year period under review. This economic outcome could be explained partly by the legacy of colonial institutional conflicts prevalent in these countries (Chapter 5). Institutional conflicts create uncertainties that discourage long-term investment, innovation and creativity towards industrial development and have implications for the demand for capital and in turn participation in the stock market. In addition to the legacy of political conflicts, this study finds high communal ownership of land and low credit offered to the private sector, suggesting relatively high communal ownership influence. This has implications for incentives towards effective utilisation of resources to increase production.

The level of industrial development for Botswana and Tanzania is lowest among SADC countries (Table 6.4; 6.5). The low manufacturing value added for these countries remains relatively constant for the entire 20 years under review (Table 6.5 panel A). A common institutional feature between Botswana and Tanzania is the comparatively low influence of the colonial economic activities on the traditional institutions. The level of urbanisation a year before independence from the colonial powers, in 1960 for Tanzania and 1965 for Botswana, were the lowest of all SADC countries, with Tanzania slightly higher than Botswana at 4.7 per cent of people living in urban areas, against Botswana's 3.9 per cent. Urbanisation is usually associated with an increase in the level of economic activity (Laidlaw and Stockwell 1979:689) which pulls individuals who have been pushed out of the rural areas into the cities by their immediate economic needs.

This relatively low settler economic activities, suggests a dominant communal ownership culture underpinning the ownership of economic assets in Botswana and Tanzania. Consistent with this proposition, the level of private sector involvement in these countries as measured by the credit offered to the private sector (Table 6.6) is relatively low. While the data on land ownership structure in Tanzania is not available, Table 4.2 shows high communal ownership of land for Botswana, which is about 70 per cent. Only 5 per cent of land in Botswana has been alienated. The study argues that the relatively low industrial development and the consequent low industrial output in Botswana and Tanzania (Table 6.4; 6.5) is a consequence of the dominant communal ownership that impedes efficiency in the use of economic resources. In addition, as discussed in Chapter 5, Tanzania also has a dominant prevalence of institutional conflicts.

Table 6.4: Contribution to GDP per sector

	Agriculture		Manufacturing		Construction		Services		Mining and Utilities	
	1987-1996	1997-2006	1987-1996	1997-2006	1987-1996	1997-2006	1987-1996	1997-2006	1987-1996	1997-2006
Botswana	5.0	2.8	5.2	4.8	6.6	5.8	38.5	47.2	44.6	39.4
Malawi	36.1	37.5	17.7	12.3	3.7	3.1	40.0	45.0	2.5	2.1
Mauritius	11.3	6.6	24.5	21.2	6.1	5.4	55.9	64.8	2.2	2.0
Namibia	11.9	11.3	12.7	12.1	2.8	2.8	53.7	56.9	18.9	16.9
South Africa	4.7	4.1	22.1	20.6	3.2	2.9	57.6	61.2	12.5	11.3
Swaziland	14.7	14.1	34.2	37.5	3.5	6.0	43.4	39.9	4.1	2.4
Tanzania	45.4	44.0	7.4	7.0	4.3	5.2	40.5	40.4	2.4	3.4
Zambia	19.5	21.1	26.7	11.3	3.4	7.1	36.3	52.6	14.1	8.0
Zimbabwe	15.4	19.0	22.9	14.6	2.9	1.5	52.1	59.7	6.7	5.2

Source: United Nations Conference on Trade and Development handbook of statistics 2006- 2007.[41] The contribution to GDP per sector is expressed as a percentage of the total contribution to GDP in US dollars.

[41] http://www.unctad.org accessed on 15/05/2008

Table 6.5: [panel A] Manufacturing value added

	1987-1991	1992-1996	1997-2001	2002-2006	Mean
Botswana	5.4	5.1	5.2	4.3	5.0
Malawi	18.5	16.9	13.0	11.6	15.0
Mauritius	26.5	22.5	22.6	19.8	22.8
Mozambique	13.4	8.9	11.5	12.7	11.6
Namibia	12.6	12.7	11.1	12.0	12.1
South Africa	23.1	21.1	19.2	19.1	20.6
Swaziland	33.7	34.7	36.5	38.5	35.9
Tanzania	7.6	7.2	7.1	6.9	7.2
Zambia	33.7	19.8	11.5	11.1	19.0
Zimbabwe	23.4	22.3	13.5	15.8	18.7

Table 6.5: [panel B] Manufacturing value added per capita (USD)

	1987-1991	1992-1996	1997-2001	2002-2006	Mean
Botswana	100.7	124.0	138.5	177.9	135.3
Malawi	28.4	24.4	18.6	16.1	21.9
Mauritius	520.4	679.9	770.4	867.3	709.5
Mozambique	23.5	13.1	25.0	38.1	24.9
Namibia	190.6	225.3	185.1	307.8	227.2
South Africa	590.6	653.7	518.6	713.6	619.1
Swaziland	250.0	350.3	354.7	477.6	358.1
Tanzania	13.1	11.9	17.5	20.2	15.7
Zambia	130.1	66.6	35.4	59.3	72.8
Zimbabwe	167.7	126.0	67.3	30.5	97.9

Source: The source of both the manufacturing value added and population data is United Nations Conference on Trade and Development handbook of statistics 2006- 2007.[42] Manufacturing valued added [panel A] is the percentage contribution of the manufacturing sector to GDP. Manufacturing value added per capita [panel B] is the value of the contribution of the manufacturing sector to GDP in US dollars divided by the population size in a country.

6.3.4 Private sector support

The level of credit offered to the private sector expressed as a percentage of GDP shows the extent of private-sector involvement in the productive activities in the economy. It also shows the extent to which the government is committed to the development of the private sector (Leblang 1996:12; Rajan and Zingales 1998; Claessens and Laeven 2003).

The level of credit allowed to the private sector in SADC countries is presented in Table 6.5. An average credit allowed to the private sector for low-income countries is used as a lower limit beyond which the rate would be considered too low and unlikely to enhance private sector productivity. The choice of the lower income bracket as a

[42] http://www.unctad.org accessed on 15/05/2008.

benchmark was influenced by the fact that the World Bank classifies most SADC countries as low-income countries. The average private sector credit for low-income countries is obtained from the World Bank's World Development Indicators for 2006.[43]

Based on this criterion, only the three, South Africa, Mauritius and Namibia provide stronger support for the private sector initiative (Table 6.6), which is in line with the underlying culture of private ownership, which is dominant in these three countries and the productive efficiency discussed earlier in this chapter. The slightly low credit offered to the private sector in Zimbabwe, which also has a dominant culture of private ownership can be attributed to the countries' political and economic crisis. The level of private sector support among the rest of the SADC countries is below the low-income countries average.

Table 6.6: Credit to private sector

	1990	2000	2004	2005
Botswana	9.4	13.8	19.0	19.0
Malawi	10.9	9.1	8.4	10.5
Mauritius	35.6	60.7	59.5	76.7
Mozambique	18.3	8.8	2.1	11.2
Namibia	22.6	45.6	50.4	61.4
South Africa	81.0	133.7	141.3	143.5
Swaziland	20.7	13.7	19.5	20.0
Tanzania	13.9	4.6	9.0	10.4
Zambia	8.6	8.6	8.0	7.6
Zimbabwe	23.0	24.5	22.0	26.9
Low income Countries: average			31.2	33.9

Source World Bank (World Development Indicators 2006)[44]. Credit to private sector is the value of a wide range of financial resources provided to the private sector expressed as a percentage of GDP.

6.4 Business environment: firm perspective

This section examines the business environment in SADC countries based on the reports of large South African companies investing in the region. The purpose here is to determine the nature of the business environment from the perspective of companies or firms and its implications for industrial development and participation in the stock market. South African companies present an opportunity for this purpose because of

[43] http://devdata.worldbank.org/wdi2006/contents/index2.htm accessed 15/07/2007
[44] Source: World Bank (World Development Indicators) 2006, http://devdata.worldbank.org/wdi2006/contents/Section5.htm accessed 15/05/2008.

their wide spread investment across sub-Saharan Africa registered or incorporated as subsidiaries, associates or joint ventures with the highest concentration in SADC countries. The number of companies is large and well spread across all SADC countries (Table 6.7).

The data is obtained from the company research reports in Who Owns Whom in Africa 2007, compiled and published by Who Owns Whom (Pty) Limited, an independent South Africa-based research organisation. Who Owns Whom (Pty) Limited has a reputation as a research organisation dating from 1980. It collects information, mainly, through interviews with the top South African companies regarding their investment in Africa. Company interviews cover a wide range of macroeconomic and business environmental factors, including the success, challenges and risks faced by companies, which includes industry specific effects. The scope is broad and sufficiently covers important institutional factors examined in the study.

Table 6.7 shows the number of companies per country and the nature of business in a host country while Table 6.8 summarises environmental factors as perceived by the companies for each country.

Table 6.7: South African companies doing business in SADC countries

		Nature of business				
Country	Number of companies	Retail	Manufacturing	Services	Construction	Primary*
Botswana	80	32	3	39	6	
Malawi	20	12	1	7		
Mauritius	31	11	1	12	7	
Mozambique	43	28	2	11	2	
Namibia	92	30	1	53	6	2
Swaziland	31	14	4	12	1	
Tanzania	22	11	2	6	2	1
Zambia	39	20	2	14	3	
Zimbabwe	39	26	1	10	2	

Source: Who Owns Whom in Africa company reports for 2007; * includes agriculture and mining

Table 6.8: Business environment

	Political	Economic/Business	Govt Regulations	Others
Botswana	-Politically stable -Corruption minimal	- Business mainly government contracts - State contracts are less risky	-Requirements easy to understand and comply with. -Corporate governance: Same as South Africa	
Malawi		- Business mainly government contracts		-Poor infrastructure
Mauritius	-Politically stable		Corporate governance: internal standard	-Adequate infrastructure - Educated workers
Mozambique		-Repatriation of funds difficult	-Regulations change frequently -Judicial system lack enforcement Corporate governance: apply South African and local	-Resistance to South Africa brand preferring local -Poor infrastructure
Namibia	-Politically stable -corruption minimal	-Small-scale business	-Most regulations same as South Africa - Corporate governance: Same as South Africa	Good infrastructure
Swaziland		-Low domestic purchasing power for durable goods -Repatriation of funds takes long time and is difficult -Prospects ripe in farming	-Lack of regulators in specialised industries: telecommunications - Corporate governance: Same as South Africa	-Strong labour unions against underdeveloped labour laws
Tanzania		-Local community resist mining activities: threat to their livelihood		-Poor infrastructure
Zambia		-Business prospects high	-Regulatory instability: unilateral changes	-Poor infrastructure
Zimbabwe	-Political instability: negative effect on doing business -threat of nationalisation	-Repatriation of funds difficult -High inflation rates -Lower profit margins -A formerly broad economic activity in decline, but still holds future promises….	-"Good original regulatory framework" -Govt interference in business -Corporate governance: South African or local requirements which ever is stringent applies.	-Deteriorating infrastructure

The information is obtained from company research reports (2007) published by Who Owns Whom in Africa (Pty) Limited – South Africa.

6.4.1 Industrial structure

The detailed disclosure by the South African companies of the nature of business they are doing in the host countries (Table 6.8) gives an insight regarding the host country's economic structure and the nature of business. For example, the generally low concentration of South African companies in the manufacturing sector in each of the SADC countries (Table 6.7) could signal lack of alternative investment opportunities in the sector. This is consistent with the generally low manufacturing sector contribution to GDP in SADC countries (Table 6.4; 6.5).

The lower entry in the manufacturing sector and the higher number of companies engaged in the retail sector could reflect South Africa's competitive advantage and the ability to penetrate regional markets through lower units of production costs. This has implications as it is likely to suppress domestic industrial development and subsequent industrial production, with consequential effects on the demand for capital, which in turn impacts on participation in stock markets.

The low entry by South African companies in the primary sector could suggest a lack of competition, probably because of regulatory protection and high government ownership in the primary sector, which remains the main foreign exchange earner for most SADC countries. It could also reflect the subsistence nature of the agricultural sector in most SADC countries, which creates a barrier to new commercialised entrants.

Further, because of South Africa's competitive advantage and its dominance of the regional product market, it will be difficult for the low industrialised SADC countries to develop a robust manufacturing sector, following the implementation of the SADC free trade agreement in 2008 and the likely establishment of a common customs union by 2010. The implementation of these regional agreements is likely to expand South Africa's product market as it takes advantage of its competitiveness to dominate the regional product market through low unit production cost.

6.4.2 The effect of trade practice

South African companies, especially trading companies, reported that they continue to source their products, except for perishables, from the mother country, South Africa. This policy will also undermine the prospects of the regional countries developing their manufacturing industries. It is likely, based on this centralised purchasing policy, that other important decisions such as corporate financing are also centralised and made by the head office. Subsidiaries are more likely, under these circumstances, to be financed by or from the head office. To the extent that a subsidiary operating in another SADC country is financed by the head office, or by funds sourced by the head office, would lower their chances of accessing the domestic market for funding.

6.4.3 Size of domestic companies

The disclosure by South African companies regarding the size of domestic competitors is important because the data on the size of domestic companies is not readily available. China and Indian companies are cited as the main competitors in the product market and those aligned to former colonial countries as competitors in large contracts. Presumably, these large projects refer to infrastructural developments financed by or with the help of the former colonial country. The general view regarding the domestic companies in the host regional countries is that they are relatively small. This information is important in that, it is highly likely that the small size of the domestic companies observed by Jefferis (1995) in the case of Botswana is the main impediment for participation in SADC stock markets. For a company to list on a stock market, it needs to have grown to a certain specified size and profitability. Therefore, majority of the domestic companies are small, the level of participation in the domestic stock market would consequently be low.

6.5 Cultural disposition and the colonial legacy

This section examines the extent to which economic outcomes outlined previously in this chapter are consistent with the institutional development path dependence for each of the SADC countries. As discussed in Chapter 5, the development of property rights, which the thesis argues contributes to the variations in the institutional outcomes including the economic and stock market outcomes in SADC countries, has been greatly influenced by the nature of the colonial policy. Therefore, the context within which these factors are examined pertains to the four consequential institutional outcomes or forms of states outlined in Chapter 5 as settler, trustee, exploitative and extractive states.

6.5.1 The settler states (South Africa and Zimbabwe)

Although European settlers established and institutionalised property rights and acquired some form of political power in both South Africa and Zimbabwe, the latter lacked the political autonomy essential to transform traditional institutions and lacked capacity to instil cultural influence on traditional institutions. The study argues that the disparities in the institutional and economic outcomes between these two settler states are associated with this variation in colonial policy. Further, the study argues that the effectiveness of the political autonomy is demonstrated by the large proportion of land converted to private ownership, where only 14 per cent of land remains under communal ownership as compared to 42 per cent in Zimbabwe (Table 4.2).

The implication of this on economic outcomes is that, while a large portion of land in South Africa could be used as collateral to access external funding to finance business growth, the proportion is lower in the case of Zimbabwe. The study argues that this disparity partly explains the variation in the level of industrial development (Table 6.4; 6.5) in South Africa and Zimbabwe. Similarly, the study argues that the extent to which the characteristic features of settler states varies with other SADC member states explains the disparities between their economic outcomes and should consequently, explain similar variation in participation in their stock markets.

In addition to the partial political authority, the number of settlers in Zimbabwe compared to South Africa was low (Table 5.2), suggesting a lower capacity to instil private ownership cultural influence on the indigenous institutions. Consequently, while settlers in South Africa used their political autonomy and their large numbers to transform institutions, the lack of capacity of settlers in Zimbabwe, instead, exacerbated institutional conflicts. These institutional conflicts persist to date and partly accounts for the variations in the economic outcomes outlined previously in this chapter. These institutional development variations are reflected in variations in the quality of institutions in the modern South Africa and Zimbabwe as measured by the degree to which the government guarantees political rights of citizens (Table 5.7), protection of private property rights (Table 5.8) and the perceived level of corruption (Table 5.9).

In all respects, the economic outcomes for South Africa suggest a relatively strong capacity to enhance at least the average level of participation in the stock market. However, in the case of Zimbabwe the statement needs to be qualified. The persistent institutional conflicts, which this study argues are partly a legacy of the colonial policy, limit the economic capacity to support a viable stock market. The strong private ownership culture underpinning the ownership and utilisation of economic resources in Zimbabwe is limited by the institutional conflicts from motivating innovation and long-term investment essential for industrial development and participation in the stock market.

6.5.2 The trustee states (Botswana; Swaziland)

The institutional development path dependence for the trustee states suggests low colonial influence on traditional institutions and a dominant communal culture. Consistent with the nature of colonial policy, the urbanisation rate remained relatively low when they acquired independence from the colonial policies in 1960s (Table 5.4). The low urbanisation rate, suggests low settler economic activities in the territories, which further support the prediction of low levels of economic and stock market outcomes. These factors are also consistent with the fact that trustee states were generally less attractive economically, which explains why settlers did not necessarily institutionalise property rights in these territories.

While the low industrial development as shown by the low manufacturing output (Table 6.5) for Botswana is consistent with its institutional development path dependence, the case of Swaziland is seemingly inconsistent with the predicted levels of industrial development. Theoretically, the high manufacturing contribution in Swaziland (Table 6.5 panel A) suggests a relatively developed industrial sector, which contradicts the specific proposition suggesting low settler activities and colonial influence for Swaziland.

Swaziland seems to be an exceptional case in southern Africa where the settlers' private ownership seems to have had less effect on the traditional institutions. This might suggest that the two institutions co-existed harmoniously. For instance, settlers alienated about 49 per cent of land in Swaziland (Kuper 1952:25) and a relatively high proportion of communal land (40 per cent) was transformed into private ownership (Table 4.2). Despite this high private ownership, which suggests a relatively high influence of ownership culture, traditional institutions in Swaziland re-emerged after independence from Britain in 1968 (Chapter 5), suggesting low colonial influence. On the other hand, the low credit offered to the private sector (Table 6.6) in Swaziland is inconsistent with the higher government support for the private sector, which is expected in a relatively well-industrialised economy.

This outcome in Swaziland can be traced to the nature of the colonial policy, in particular, the attitude of settlers in Swaziland. As a British protectorate, the traditional institutions in Swaziland were protected by the imperial government. In contrast to other SADC countries, the processes used by settlers to acquire concessions over land in Swaziland, may have lacked the "moral authority" as Selbourne (1914:358) puts it, but were relatively peaceful and cordial. Settlers that entered and obtained large portions of land in Swaziland were individual South African entrepreneurs, mainly farmers and mineral speculators. This was at the time when there was an undertaking between Britain and South Africa to respect the sovereignty of Swaziland (Selbourne 1914:358). It was therefore in the best interest of the settlers to establish a cordial relationship in order to win favour and cooperation from the traditional leaders. The relationship was nurtured by providing Swazi chiefs with champagne, which they loved (Selbourne 1914:358). Firstly, this was important in order to legitimise the transactions, which otherwise lacked moral authority. Secondly, settlers who obtained land concessions in Swaziland were mainly individuals and as such lacked institutional capacity to instil institutional changes on the traditional institutions. Their number was also relatively small, 1.7 per cent of the population (Table 5.2), suggesting that they lacked the capacity to instil cultural influence.

Under the circumstances, it is reasonable to assume cooperation with traditional leaders as a strategy to protect the private ownership rights by the settlers. To the extent that settlers did not interfere with the political authority of the traditional leaders over their subjects, such cooperation was assured.

Seemingly, this cordial relationship did not only minimise institutional conflicts but had also facilitated the transfer of skills from the European settlers to the indigenous Swazis. Robson (1967:472) suggests that the cash crop production that dominated the economy of Swaziland towards independence was by both the settlers and the indigenous African estate owners.

Compared to Botswana that relied solely on its livestock industry with a single abattoir, the Botswana Meat Commission established in 1954, by independence Swaziland had developed an agricultural sector with modern production technology (Robson 1967:472). According to Robson (1967:479), although it was inconceivable to envisage the establishment of a manufacturing industry in the trustee states, given South Africa's comparative advantage, in Swaziland some industries were developed in the "fields, which are not competitive with South Africa's protected industries". This structure persisted beyond independence because although Swaziland reverted to their traditional monarchy after independence from Britain they nonetheless have maintained a market driven economy to date.

In terms of the overall economic capacity to sustain a viable stock market, the two former settler states are small in terms of their population and lack the competitive efficiency to expand their industrial capacity through exports. Although Botswana has a high savings level, the income inequality is too high (Table 6.3) and as such is likely to limit the number of potential participants. According to SADC reports, Swaziland's manufacturing industry is dominated by a single product, the agricultural kind. In addition to the small size, the lack of industrial diversification will limit the scale of economic outcomes and consequently participation in stock market.

6.5.2.1 Economic dependence

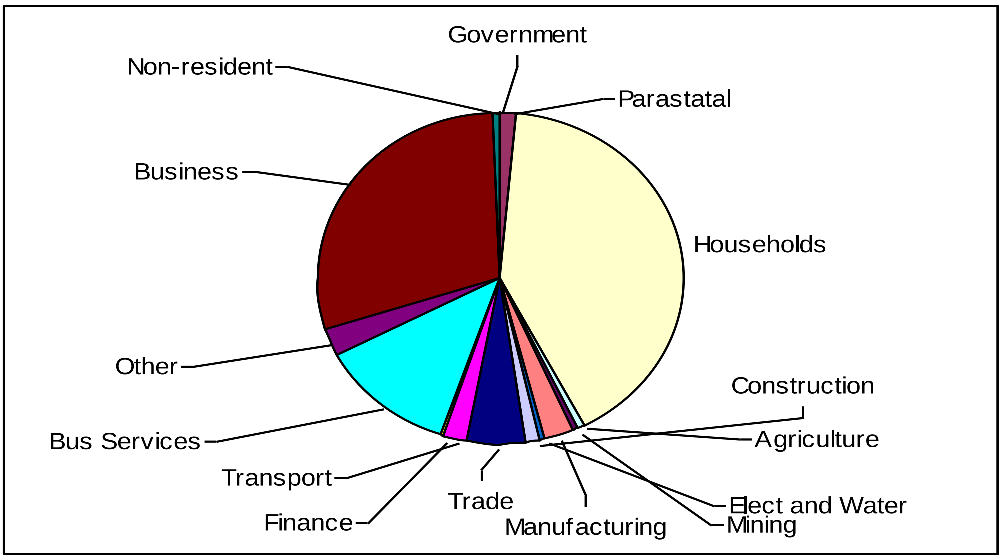
Notwithstanding the fact that traditional institutions in the trustee states where protected by the imperial government policy, they were nonetheless commercially attached to the Union of South Africa. It is argued in Chapter 5 of this thesis that the continued dependence on South Africa for manufactured goods by the trustee states is likely to impede the capacity of these countries to develop their own industries. In turn, this will affect the demand for capital and impede participation in the stock market. This section examines the extent of the economic dependence by trustee states on South Africa using trade data and banking sector loan structure. The intra trade data (Table 6.9 panels A and B) are obtained from SADC and the bank loan data for Botswana are obtained from Bank Botswana.

About 82.61 per cent of Botswana's imports are from SADC out of which 77.68 per cent is from South Africa (Table 6.9 panel B). This high dependence could have partly contributed to the failure of Botswana's industrial policy, the Financial Assistance Policy (FAP) introduced in 1982, which was replaced by the Citizen Entrepreneurial Development Agency in 2001. The objective of the policy was to facilitate rapid industrialisation and promote citizen participation in ownership of economic assets as an attempt to diversify the economy that relies heavily on diamonds. Until recently, 2007/2008, when diamond manufacturing companies were established locally, diamond mining was mainly for export. It accounted for 83.23 per cent of export revenue (SADC 2006:91).

Swaziland, on the other hand, is almost entirely dependent on South Africa for both its imports and for its agriculture-dominated exports. About 89.68 per cent of Swaziland's imports come from SADC member states, of which 87.22 per cent is supplied by South Africa (Table 6.8 panel B). The high levels of Swaziland exports to South Africa, 72.54 per cent of total exports (Table 6.9 panel A), confirms Robson's (1967:479) findings that Swaziland's manufacturing sector is linked to the markets in South Africa.

The financial sector policy, in particular the commercial bank lending policy that developed in these countries, reflects their status as product markets. Commercial banks operating in South Africa expanded their services into the trustee states by establishing branches (Robson 1967:467). The policy of these banks focused mainly on financing consumption rather than production. Although the commercial bank lending data for Swaziland is not available, Figure 6.1 illustrates this view based on commercial bank lending data for Botswana. A larger proportion of commercial bank loans in Botswana finance household consumption, with a small fraction devolved to production. The study argues that this legacy persists because the economic structure in the trustee states has not changed much. Despite their political independence, they continue to rely on South Africa for manufactured goods. This will potentially limit the trustee states' industrial development capacity and impede participation in the stock markets.

Figure 6.1: Botswana commercial banks loan structure as at December 2006



Source: Bank of Botswana: http://www.bankofbotswana.bw/ accessed 07/03/2008. Charts show the proportion of loan offered by the commercial banks to each class in domestic currency

Table 6.9: SADC trade flow

Panel A: Intra-**t**rade – **e**xport

	SADC	Angola	Botswana	D.R.C	Lesotho	Malawi	Mauritius	Mozambique	Namibia	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
Botswana	12.28	0.01		0.09	0.01	0.10	0.01	0.04	0.17	8.82	0.02	0.05	0.27	2.71
Malawi	20.78	0.00	0.25	0.05	0.01		0.05	3.43	0.03	12.72	0.02	0.98	1.46	1.79
Mauritius	1.97	0.00	0.03	0.00	0.01	0.05		0.07	0.01	0.84	0.00	0.15	0.03	0.33
Mozambique	27.78	0.10	0.07	0.02	0.00	3.24	0.03		0.00	16.24	0.95	0.14	0.11	6.84
Swaziland	86.23	0.61	0.05	0.00	0.01	0.50	0.77	5.81	0.01	72.54		1.49	0.52	4.04
Tanzania	8.07	0.06	0.02	2.06	0.01	1.34	0.04	0.21	0.01	2.22	0.02		1.59	0.46
Zambia	31.77	0.05	0.34	3.66	0.01	1.80	0.28	0.04	0.16	18.40	0.03	5.30		1.71
Panel B: Intra-**t**rade - **i**mports														
Botswana	82.61	0.00		0.02	0.02	1.61	0.06	0.01	0.27	77.68	0.04	0.02	0.23	2.64
Malawi	55.41	0.00	0.42	0.02	0.02		0.24	3.87	0.17	39.72	0.62	1.07	2.06	7.21
Mauritius	13.85	0.00	0.01	0.01	0.00	0.02		0.19	0.01	12.51	0.32	0.05	0.13	0.22
Mozambique	39.01	0.01	0.01	0.00	0.00	0.50	0.06		0.24	36.70	0.58	0.08	0.01	0.83
Swaziland	89.68	0.00	0.00	0.03	0.00	0.04	0.00	0.48	0.00	87.22		1.37	0.47	0.09
Tanzania	13.29	0.00	0.03	0.02	0.00	0.12	0.14	0.06	0.02	11.59	0.74		0.30	0.26
Zambia	59.30	0.00	0.42	0.43	0.01	0.36	0.27	0.44	0.19	46.49	0.30	0.99		9.38

Source: Southern African Development Community (SADC): http://www.sadctrade.org/ 06/03/2008. Intra trade, that export and imports within SADC region is expressed as percentage of the total.

6.5.3 The exploitative states (Malawi, Tanzania and Zambia)

Although there are commonalities with respect to the institutional development processes and the consequent outcomes, the colonial policy for Tanzania slightly differed. The institutional feature common among these countries is the institutional development path that is characterised by institutional conflicts, mainly political. They also tend to have high communal ownership (Table 4.2). Since settlers had institutionalised property rights in these states, this study argues that they have the potential to develop an industrial sector but institutional conflicts deterred long-tem investment, and communal ownership impeded economic efficiency, hence the average low and declining economic outcomes. Institutional conflicts in exploitative states are of two types. The first conflict is political, which is related to continued resistance to the colonial rule by the indigenous communities. The second conflict is cultural, and is between private ownership and communal ownership of property.

The political institutional conflicts in these countries have negative implications for quality of institutions in terms of the guarantee of political rights (Table 5.7), property rights protection (Table 5.8) and the perceived levels of corruption (Table 5.9). Weak institutions create uncertainties that increase risk, discourage long-term investment and, consequently, participation in stock markets.

Initially Tanzania was a German colony whose policy was largely extractive. This was before it became a British trusteeship under the League of Nations mandate (Boateng 1978:69-70). Both the German and British colonial policies in Tanzania were largely transitory in nature, suggesting fewer incentives for settlers to invest long-term and develop a significant industrial structure. Boateng (1969) suggest that colonial powers in Tanzania did not necessarily encourage European settlement. This could explain the low European settlement, which was only 0.2 per cent of the total population (Table 5.2), who owned only 0.7 per cent of land in Tanzania (Buell 1928:513). Consequently, at independence from Britain in 1961, there were only 4.7 per cent of the population living in urban areas, suggesting a relatively underdeveloped and rural based economy. The rate of urbanisation in Tanzania is continually low, which is consistent with its constantly low industrial output (Table 6.4). This finding further strengthens the argument for the effective role of settlers and a private ownership culture for industrial development and consequently participation in the stock market.

The former British protectorates, Malawi and Zambia are a classic case of a self-conflicting colonial policy, where the imperial government protected and presided over the conflicting private ownership rights of the settlers and the indigenous traditional institutions simultaneously.

To some extent, the protection of private property rights provided settlers with a degree of certainty, which could enable them to develop property rights. The extent, to which the economies in Malawi and Zambia developed, depended on the economic incentives envisaged by settlers in each territory. In Zambia, settlers had in addition to copper mining, developed manufacturing industry and commercialised farming (Tordoff 1977:60; Fincham 1980:298; Burdette 1977:475). In Malawi, they focused mainly on agriculture, such as the cultivation of cash crops and manufacturing agricultural products mostly for export (Johnston 1895:202; Pachai 1973:693; Kalinga 1984:646-651). The effect of the settler economic activities on the social system in the two countries differed. For instance, when Zambia achieved independence from Britain in 1964, about 24 per cent of the population were already living in urban areas, while in Malawi the rate was 4.9 per cent. However, the lower urbanisation rate in the case of Malawi may not necessarily reflect the degree of colonial influence on traditional institutions. The interest of settlers in Malawi was largely farming, which is mainly rural. In addition, as discussed in Chapter 5, missionaries had greater influence on the society through education than in Zambia for instance.

The low number of settlers in these territories - Zambia, 1.4 per cent and Malawi 0.1 per cent of the population (Table 5.2) - suggests that settlers lacked the capacity to instil cultural values, which could explain the persistence of institutional conflicts in the exploitative states.

Overall, it could be concluded that the exploitative states have the potential to enhance at least the minimum participation in the stock market but lack the economic capacity and the competitiveness to develop the essential industrial sectors due to persisting institutional conflicts, which creates uncertainties and risk and communal ownership that impair efficiency in the use of economic resources.

6.5.4 The extractive states

The case of Mozambique, which is the only extractive state that has a stock market, is weak because of lack of stock market data and inadequate supporting historical information.

Although white settlement in the extractive states was not barred, it was not necessarily encouraged, which implies a relatively low capacity to instil private ownership culture among indigenous communities. The greatest impact of this policy on the indigenous communities' social life was through political oppression, which seems to have created acute political conflicts with lasting political consequences. In general, these factors create risks, which deter long-term investment.

It should be expected, given the transitory nature of the extractive colonial policy, that Mozambique had only 8.7 per cent of the population living in urban areas at independence from Portugal in 1975 (Table 5.4). The land converted to private ownership in Mozambique was 3 per cent, while 80 per cent of the land remained under communal ownership (Table 4.2). The lower proportion of the European settlers in Mozambique, 0.8 per cent, (Table 5.2) also reflects the nature of the colonial policy.

Mozambique has the population (Table 2.2) but lacks industrial capacity (Table 6.4; 6.5) and saving capacity (Table 6.2) to enhance participation in the stock market. Although Mozambique is showing signs of improvement in both economic capacity and political institutions, it has weak property rights institutions (Table 5.7; 5.8; 5.9). The level of corruption is perceived to be high, the protection of private property rights is low, and politically the region provides citizens partial freedom. These factors would discourage innovation and long-term investment, which will impede industrial development and consequently low demand

6.5.6 Special cases: Mauritius and Namibia

Mauritius and Namibia are special cases in that they do not fall under any institutional grouping in Chapter 5.

Mauritius has no indigenous culture. It is a multicultural society made-up of mixed races of Africans, Indians, Chinese and Europeans. Initially, the population in Mauritius increased through import of labour. The historical development of Mauritius differs significantly from other SADC countries. Unlike other SADC countries where colonialism introduced institutional conflicts between the pre-existing indigenous African institutions and the imposed European institutions, Mauritius had no indigenous communities prior to the arrival of the first Europeans, the Portuguese, who discovered the island in the early 1500s. However, the Portuguese left no institutional trail; they did not settle. Their span is estimated to be between 1507 and 1513. Attempts by the Dutch to colonise Mauritius between the 1638 and 1710 (with interruptions in between) failed and consequently they abandoned the island in 1710. The country name "Mauritius" and the sugar plants are the legacy of Dutch. The French occupation of Mauritius is estimated to have been effective from 1715 until 1810 when they were deposed by Britain. Although Britain made some administrative changes, French language and the Napoleonic code of laws remained. Britain occupied Mauritius until the latter's independence in 1968. The main motivating factor for annexing Mauritius was mainly commercial (Benedict 1965; Toussaint 1971; Moree 1998).

Namibia is another SADC Bantu-predominant country. This former German colony was annexed after being entrusted, under a League of Nations mandate, to South Africa at the end of the World War I and remained part of South Africa until independence in 1990. For purposes of establishing an institutional development path, Namibia was treated as part of South Africa. Against this background, Mauritius and Namibia are assumed to have greater European private ownership influence. This view is consistent with the high credit offered to the private sector (Table 6.7) in the two countries and relatively high number of settlers in Namibia (Table 5.2).

6.5.6.1 Mauritius

Mauritius has since diversified its economy from sugar that dominated its exports prior to independence and developed the manufacturing sector, which now contributes on average 22.85 per cent of the GDP (Table 6.4; 6.5). This supports the argument in this thesis of the effectiveness of private ownership of property to enhance efficiency in the use of resources. Sugar exports made up 99 per cent value of the Mauritius's exports prior to independence (Benedict 1965:5). It now earns an average of 17.30 per cent while the manufacturing sector accounts for 62.03 per cent of export revenue (SADC 2006:160). The success in Mauritius to increase production and exports can be attributed to efficient production capacity. Mauritius, South Africa and Namibia are the only three SADC countries, according to the World Economic Forum, that are competitive and efficiency-driven.

Despite the small size of the economy, Mauritius ranks third after South Africa and Zimbabwe in terms of the country's manufacturing industry value contribution to the total SADC manufacturing sector output value (Table 6.4; 6.5). This suggests that the scale is not necessarily a limiting factor to developing industrial capacity. What matters most is the efficiency in production. Manufacturing output is encouraged by a strong support and commitment to the private sector as judged by the relatively high credit offered to the private sector, ranking Mauritius second after South Africa (Table 6.6). Based on the industrial capacity ranking, Mauritius has at least the minimum economic capacity to motivate reasonable participation in the domestic stock market.

Furthermore, the fact that Mauritius did not have an indigenous culture suggests that it did not have similar institutional conflicts as other SADC countries and therefore had greater incentives for greater innovation and efficiency in the use of resources. However, the fact that only 1.97 per cent of Mauritius products are absorbed within SADC markets (Table 6.9 panel A) may suggest less industry and/or product diversification, at least compared to South Africa and Zimbabwe. Lack of diverse industries or product range will potentially limit the capacity of the industries to enhance participation in the stock market.

6.5.6.2 Namibia

Private property rights institutions in Namibia developed largely under the influence of the European settlers through occupation by South Africa. By independence in 1990 there was 26.6 per cent of the population living in urban areas, suggesting a relatively high influence of settler economic activities.

In addition, the number of settlers that were resident in the territory, which was 10.6 per cent of the total population (Table 5.2), is sufficiently high to influence a property rights culture, more so that the indigenous institutions were not protected as in the British protectorates. This view is reflected by the 44 per cent of land that was converted from communal to private ownership (Table 4.2), which is the second highest after South Africa.

While the relatively high number of settlers (Table 5.2) and credit offered to the private sector in Namibia (Table 6.6) suggest greater private ownership underpinning their economic organisations, the manufacturing output is just average, suggesting a marginal industrial capacity to enhance participation in the stock market. This low industrial capacity in the case of Namibia is not consistent with the high private property cultural influence. This outcome is one of those exceptions or grey areas that reflect the complexities of the colonial policy and consequently the outcomes in Southern Africa. It is possible that Namibia was occupied mainly for purposes of extracting resources and that industries developed to complement production in South Africa. However, as to how this might contribute to this inconsistency remains unresolved.

Namibia’s competitiveness rating by the World Economic Forum is not necessarily reflected in manufacturing output or the level of industrialisation.

In addition to these limitations, Namibia leads the world with the highest income inequality where 78.7 per cent of income is held by only 20 per cent of the population (Table 6.3). Under these circumstances, the Namibian economy is unlikely to enhance high participation in the domestic stock market.

6.6 Conclusion

This chapter examined the economic capacity of SADC countries to enhance participation in stock markets. Economic capacity is defined in terms of the scale of the economy as measured by size of the population and GDP, the demand for capital, which depends on the degree of industrial development, as measured by manufacturing value added, and the supply of capital of which the level of savings is the proxy. The level of industrial development determines the degree of productive activities, which drives the demand for capital and consequently participation in the stock market. The chapter also examined the influence of the development of property rights in each SADC country on these economic outcomes.

Consistent with property rights theory predictions, this study finds that, in SADC countries, the development of property rights influence economic capacity mainly through the method or culture underpinning ownership of property in the society. As discussed in Chapter 3, property rights theory presupposes that private ownership, as opposed to communal ownership of property rights, provides greater incentive for efficient use of resources. In turn, the degree of efficiency in the use of resources determines the level of demand for capital and consequently participation in stock markets. Countries with a greater influence of settler private ownership culture, such as South Africa and Mauritius, tend to have a relatively well-developed industrial sector. Those that had low settler economic activities and consequently greater communal property ownership cultural influence, for example Botswana and Tanzania, tend to have relatively low industrial development.

It appears that while private ownership of economic resources may have a greater influence on efficiency in the utilisation of economic resources, institutional conflicts limit its effectiveness. South Africa and Mauritius do not only have dominant private ownership influence but also low institutional conflicts, which the study argues reduces uncertainties and provides incentives for long-term savings and investment, innovation and creativity essential to create competitiveness in the economy, hence the relatively high economic outcomes. Although Zimbabwe also has a dominant private ownership culture, it nonetheless has average and declining economic outcomes. The study argues that this outcome is because of the dominant colonial legacy of political conflicts.

However, even under the current political and economic crisis, the level of industrial development for Zimbabwe, though declining, is still higher than countries such as Botswana with dominant communal culture, the lowest institutional conflicts and good quality institutions. The study argues that this indicates that private ownership of assets has a much greater influence towards efficiency in the utilisation of resources and industrial development than the influence of the quality of institutions. The quality of institutions determines the incentives for investors and entrepreneurs to exchange property rights, which encourages efficiency in the use of resources but this depends on economic capacity, including the availability of business prospects.

Compared to the case of Zimbabwe and the exploitative states where institutional conflicts limit the capacity of private ownership to enhance industrial development and output, the case of Swaziland demonstrates the effectiveness of harmonious institutional relationships. Swaziland has a strong traditional culture influence on political institutions, which seem to coexist harmoniously with the private ownership of the settlers. The study argues that this institutional harmony, despite the dominant traditional cultural influence on political institutions, provided incentives for settlers to develop property, hence the relatively high manufacturing output in Swaziland.

In general, based on the size of the population, the settler states and exploitative states have the potential to sustain demand through consumption, which in turn determines the level of productive activities that drives the demand for capital and consequently participation in stock markets. However, the generally low economic outcomes, which includes GDP, dominant communal ownership culture and the institutional conflicts in exploitative states means that only South Africa and to a limited extent Zimbabwe, based on its dominant private ownership culture, have the capacity to enhance meaningful participation in their stock markets.

In terms of savings capacity, those SADC countries that have high savings capacity are those, which in general have relatively good quality institutions. This is consistent with the property rights prediction of property rights theory that the quality of property rights institutions determines the incentives for long-term investment and savings. However, the capacity for high savings in these countries to enhance participation in the stock market is doubtful because of the highly concentrated income distribution (Table 6.3).

Chapter 7 Property Rights and Stock Market Participation

7.1 Introduction

This chapter addresses the main concern in this thesis, low participation in SADC stock markets, by critically analysing participation in the stock market. It examines the nature of participation levels in each SADC stock market and how they relates to the nature of the prevailing property rights regimes identified in Chapter 5, and the aggregate levels of industrialisation development identified in Chapter 6. In addition, the chapter analyses the motivations for the formation of stock markets in SADC countries and examines how that relates to levels of participation in a domestic stock market.

The chapter is divided into three parts. The first part describes and analyses participation in SADC stock markets focusing mainly on the structure of the stock markets in terms of the listing requirements, ownership structures of listed companies and market development indicators including trading activities (section 7.2). This part also includes a critical analysis of the nature and implications of the domestic stock market initiatives promoting participation (section 7.3). It is intended here to identify the nature and the extent to which these factors reflect and relate to the levels of participation in SADC stock markets.

In the second part (section 7.4), the chapter examines how property rights regimes, their processes (Chapter 5) and economic outcomes (Chapter 6), and the incentives for developing stock markets in a SADC country relates participation in the domestic stock market. To support the arguments in this thesis regarding some particular outcomes, section 7.5, examines the possible associations between relevant variables using non-parametric test based on the Spearman's rank correlation coefficients. Section 7.6 concludes the chapter.

7.2 Stock market participation

Participation in stock markets involves entrepreneurs and investors. Therefore, explaining participation in a stock market requires an analysis of investors and listed companies. Of particular importance in this regard are the number of local investors, the number of domestic listed companies, and the levels of trading activities by domestic participants. However, a detailed analysis of investor participation in the stock market is limited by lack of data. Instead, the large shareholding and shareholders are used as proxies. This data is only available for Botswana, Swaziland, Tanzania and Zambia. Despite its limited scope, the ownership data from these countries is nonetheless sufficiently representative, particularly that they are part of the small stock markets that are central to the research question. Although Mozambique has established a stock market, it is omitted from the analysis because of lack of data.

In addition to the ownership data and the number of traded shares described in this chapter, the analysis also includes participation indicators described in Chapter 2. This data includes the number of companies listed in the stock market (Table 2.3), stock market capitalisation ratio (Table 2.4), and the turnover ratio (Table 2.5).

7.2.1 Data sources and description of participation indicators

The data used in this section comes from the national stock exchanges and individual company published annual statements. In the few instances where data from the stock exchanges and company reports is inadequate or not accessible as in the case of Zimbabwe, alternative sources, in particular, the United Nations Development Programme's African Stock Markets Handbook (2003) and African Securities Exchanges Association (ASEA) Yearbook 2006 are utilised. The source of share ownership data for Swaziland listed companies is the 2003 stock market development report published on the Swaziland stock exchange website. The report discloses the top three shareholders and their related shareholdings in two of the six listed companies and the names of major shareholders in the remaining four, without disclosing shareholding. This means that the controlling shareholding for Swaziland in Table 7.5 includes only two companies while Table 7.4 includes all the six listed companies, except the third column (B3) where only four companies disclosed the third largest shareholder.

The ownership data for Zambian companies is from their individual annual reports for the years 2005 and 2006, available through the stock exchange and some companies' websites. Of all the listed companies on the Zambian stock exchange, only six disclosed both the type of shareholder and their shareholdings, while four others disclosed the largest block holder only. Thus, the largest block holder (B1) in Table 7.4 and the largest block holding (LBH1) in Table 7.5 in the case of Zambia include ten companies, while the second largest block holder (B2) and third largest block holder (B3) in Table 7.4, and the second largest block holding (LBH2) in Table 7.5 includes only six, while the top three largest block holders (T3LBH) in Table 7.5 aggregates the top three disclosed shareholdings.

For Tanzania, the ownership data is for all six companies listed on the stock exchange as at 2006. The source of the data is the domestic stock exchange website obtained in August 2007.

In the case of Botswana, the sample includes 14 of the 19 listed companies as at the end of 2006. The data is comprehensive in the sense that it includes all the shareholders and their shareholding in a company. It is from the 2002 shareholder register kept by the Stockbrokers Botswana and Capital Securities. In addition, the study had access to the 2007 share register through Capital Securities for three of the 14 companies included in the sample. The data from the later was used to examine whether the ownership structure of Botswana firms have changed since 2002. A comparison between the 2002 and 2007 ownership data for the three companies (above), and a contrast between the 2002 and 2006 largest block holding disclosed in company annual reports, shows that share ownership structure did not change that much over the period, particularly the largest by the parent companies and institutional investors.

Ideally, defining and explaining the level of domestic firm participation necessitate an analysis of the structure of corporations in a country in terms of the role, number, size and performance. However, the data on companies outside the stock market is not available. The terminology "domestic companies" used in this thesis with regard to the listed companies may be misleading in that most of the locally incorporated firms are in fact subsidiaries of multinational firms.

The total volume of shares traded in the stock market indicates the size and the level of trading activity in a stock market. Volume of traded shares is used as an indicator of the level of participation in the stock market on the assumption that the lower the volume, the lower the number of participants and consequently low trading activities. The turnover ratio, which is the total value of shares traded during the year divided by the market capitalisation for the same period indicates the value of activity relative to the value invested in the stock market. A low turnover ratio suggests low trading activities and consequently low participation in a stock market. The market capitalisation to GDP ratio reflects the fraction of national income invested in the stock market.

7.2.2 Listing criteria

This section examines the criteria to which companies have to satisfy to be able to participate in a stock market, mainly to determine the extent to which the regulatory structures might be an impediment. The purpose of prescribing the minimum required standards for companies that wish to participate in the stock market is to ensure credibility in the share market and protect the interest of investors (Smith 1936:36). For this purpose, the stock market listing requirements prescribe the minimum standards for listing companies, in terms of size and profitability. Companies that wish to raise capital through the stock market by issuing shares to the public are required to disclose their business prospects and profitability by publishing a prospectus. The minimum prerequisites for companies seeking to participate in a SADC domestic stock market are summarised in Table 7.1.

Notwithstanding the suggestion that SADC stock markets have largely harmonised their listing rules (Irving 2005:21), the criteria for listing vary widely. Companies listing in Zambia, Namibia and Botswana can be smaller than the minimum size required by the South African Alternative Exchange, while those companies seeking to list on the Malawi and Swaziland are required to be at least twice the minimum size required for a company listing in the South African Alternative Exchange.

Despite the disparity in the listing criteria the number of companies listed, particularly in the post-independence stock market, remains relatively low (Table 2.3). While it is highly likely that the high standards prescribed for companies listing in Malawi and Swaziland exclude most of the potential companies from listing, the fact that the number of companies listed in Namibia, where there is relatively low listing requirements, is declining does not support the proposition that listing requirements impede participation in SADC countries. The minimum share capital of US$714 286 and issued shares of five million (Table 7.1), given the small size of the economy in Swaziland (Table 2.1; 6.1), is rather too high and likely to exclude most domestic companies from participating in the stock market, mainly because of their small size. However, the low participation in Zambia, Namibia and Botswana despite the lower standards for listing companies suggests that lowering the standard by Malawi and Swaziland may not necessarily improve participation. On the other hand, it could also be argued that, the case of Malawi and Swaziland implies that an attempt by Zambia, Namibia and Botswana to raise the listing standards, presumably to enhance investor confidence is unlikely to improve participation in the stock market. The incentive for the high listing requirements in Malawi and Swaziland does not form part of this study but worth a follow-up study.

For South Africa, the large size required for listing companies is consistent with its large economy (Table 2.1; 6.1), the greater influence of private ownership (Chapter 5) and greater reliance on the private sector (Table 6.6), which suggests a relatively high preference for companies and capital markets. A company listing in the South African stock market is required to have reached a high level of maturity, with regard to its share capital value and profitability. However, notwithstanding these positive features with regard to participation in the South African stock market, the shareholding spread or the minimum required percentage of shares to be issued to the public, and the minimum number of public shareholders required for a public listing company are not that different from other regional small stock markets. This suggests a widespread, high ownership concentration and low liquidity in regional stock markets including South Africa. This proposition is consistent with the generally low liquidity across all SADC countries.

Table 7.1: Listing criteria: minimum requirements

	Share capital (US$)	Issued shares (million)	Profitability - past 3 years (US$)	Share holding spread (per cent)	Public share holders
Botswana	163934	1	163934	20	300
Malawi	720981	30	satisfactory	15	300
Mauritius	586510		satisfactory	25	200
Namibia	142857	1	71429	20	150
South Africa	3571429	25	1142857	20	300
Swaziland	714286	5	satisfactory	20	20
Tanzania	392095		satisfactory	25	1000
Zambia	60483	1	satisfactory	25	300
South Africa AltX	285714	-	-	-	100

Sources are national stock exchanges; World Bank for currency exchange rates (December 2006). It was not possible to access the listing requirements for Zimbabwe.

7.2.3 Trading activities

This section describes the level of trading activities in SADC stock markets based on the volume of shares traded per a year. The volume of shares traded within a given period is used as a measure of participation in the stock market. Table 7.2, panel A, shows the number of shares traded in each SADC stock market, panel B shows the average traded shares per company listed in the stock market. The relatively high number of shares traded in South Africa and Zimbabwe is consistent with other stock market development indicators, in particular, the number of listed companies (Table 2.3) and market capitalisation (Table 2.4), which also suggest relatively high participation in stock markets.

Mauritius's third ranking in terms of the number of companies listed (Table 2.3) and market capitalisation (Table 2.4) is not consistent with the relatively low traded volume (Table 7.2). In the absence of the ownership data with respect to the Mauritius stock market, the low volume of shares (Table 7.2) would give an insight. It suggests relatively low investor participation and relatively high levels of ownership concentration. Although the level of trading activity as measured by the volume of traded shares and the traded shares per company for Zambia, and to some extent Malawi, is relatively low, it is slightly higher than all post-independence SADC stock markets, including Mauritius. In general, trading activities in the post-independence SADC stock markets is generally low.

Table 7.2 [panel A]: Traded shares- volume (mn)

	2003	2004	2005	2006	Mean
Botswana	77.42	61.93	44.16	87.25	67.69
Malawi	181.3	110.4	61.4	160.4	128.4
Mauritius	168.09	146.36	271.57	221.37	201.85
Namibia	9.67	39.13	13.77	73.76	34.08
South Africa	43053.00	45438.00	54510.00	74487.00	54372.00
Swaziland	0.08	0.07	0.06	0.07	0.07
Tanzania	24.39	22.92	69.98	21.05	34.58
Zambia	311.44	211.35	215.33	856.66	398.70
Zimbabwe	9600.00	6700.00	9600.00	7900.00	8450.00

Sources: Domestic stock exchanges and African Securities Exchanges Association yearbook 2006 for Zimbabwe. Mean is an average of the 2003-2006 means.

Table 7.2 [panel B]: Traded shares- volume (mn), per listed company

	2003	2004	2005	2006	Mean
Botswana	4.07	3.44	2.32	4.59	3.61
Malawi	22.7	13.8	6.8	20.0	15.6
Mauritius	4.31	3.66	6.62	5.40	5.00
Namibia	0.88	4.35	1.53	8.20	3.74
South Africa	101.06	115.32	146.14	204.63	141.79
Swaziland	0.02	0.01	0.01	0.01	0.01
Tanzania	4.07	4.58	11.66	3.51	5.95
Zambia	28.31	17.61	16.56	57.11	29.90
Zimbabwe	120.00	84.81	121.52	98.75	106.27

Sources: Domestic stock exchanges and African Securities Exchanges Association yearbook 2006 for Zimbabwe. Mean is an average of 2003-2006 means.

7.2.4 The demand for and supply of shares

Participation in a stock market involves not only the demand for and supply of capital but also the demand for and supply of shares. This section examines the demand for shares focusing on the initial public offerings and the potential demand for shares based on the size of assets held by institutional investors. The initial public offering data is from the domestic stock market reports. The source for institutional investors' assets is the International Monetary Fund (IMF) country reports. Because of the size of their assets and role, institutional investors play a significant part in the development and participation in the stock market not only by providing the bulk of long-term capital but also through their role in enhancing corporate governance. However, because of the limitation of data, the assets of institutional investors described in Table 7.3 include only two types, the pension funds and insurance companies. Nonetheless, the data is representative because pension funds and insurance companies are generally large and important sources of long-term financial capital. They invest on long-term instruments to match the risk, return, and maturity of their liabilities.

The reports from the domestic stock markets on the initial public offerings (IPOs) indicate that the demand for shares exceeds supply. The supply channel is the main route through which the prevailing property rights regimes and their related industrial developments impede participation on the stock market. The recent initial public listings in SADC stock markets indicate a relatively high demand for shares. There are more willing investors chasing few company shares. For example, the primary listing by African Explosives plc in the Zambian stock exchange in 2006 had the initial public offering (IPO) oversubscribed by 276 per cent. A sale of residue shares by the Zambian Trust Fund in 2005 was oversubscribed by 420 per cent. An initial public offering by PrimeTime Holdings in Botswana in 2007 was oversubscribed 3.35 times. In Malawi, the privatisation reports states that the initial public offering by NBS Bank in 2007 was oversubscribed 8.9 times.[45] The offering by private placement by FSG limited through the Botswana Stock Exchange in October 2008 was oversubscribed 2.8 times while the offer to the public was oversubscribed 2.5 times.

The deficiency in the supply of shares in SADC countries support the arguments in this thesis that in general domestic companies, with the exception of South Africa and to some extent Zimbabwe, are generally small. This study argues that the lack of growth of domestic companies is partly because of the dominant communal culture underpinning the ownership and utilisation of economic assets. Communal ownership does not motivate innovation and creativity essential for competitiveness in the economy and growth of the firm. It is also related to the persisting colonial legacy of institutional conflicts, which creates uncertainties that discourage long-term investment and impede long-term savings essential for firm growth. In addition to dominant communal ownership, the persisting colonial legacy of economic

[45] Malawi Privatisation Commission: http://www.pcmalawi.org/index.php?option=com_content&task=blogcategory&id=31&Itemid=151&limit=5&limitstart=5 Last accessed on 18/12/2009.

dependence in the trustee states (see Chapters 5 and 6) is likely to further impede their capacity to utilise excess liquidity in the financial market (see Table 7.3) to finance company projects and growth, which enhance industrial development.

Table 7.3: Total assets of institutional investors (percentage of GDP)

	Percentage of GDP	Year	Source
Botswana	69.0	2006	IMF 2008
Mauritius	50.8	2002	IMF 2005
Namibia	90.0	2006	IMF 2008
South Africa	176.0	2006	IMF 2008
Swaziland	43.0	2006	IMF 2008
Zambia	9.1	2005/06	IMF 2008
Zimbabwe	4.3	2004	IMF 2005

Source is the International Monetary Fund (IMF) country reports for different years – as listed. Botswana, Namibia, South Africa and Swaziland the data is from the Swaziland country report 2008. Institutional investors here include pension funds and insurance companies only. For all countries except Zambia, the percentage of assets held by institutional investors is for a single year while for Zambia is an average for the years 2005 and 2006. The data for Malawi and Tanzania is not available.

Although Table 7.3 shows partial institutional assets, pension funds and insurance companies generally have larger assets than other institutional investors or other types of investors. Thus, the information in Table 7.3 is representative of the capacity of the investors who participate directly in the stock market. It appears that there are two extremes in SADC countries. There is excess liquidity in the Botswana, Mauritius, Namibia and Swaziland financial sectors while in Zambia and Zimbabwe the liquidity is low. With regard to the former, the size of contractual savings (pension funds and insurance) far exceeds the total financial wealth invested in the stock market. For Namibia the size of the contractual savings in 2006 (see Table 7.3) exceeded the domestic market capitalisation reported in Table 2.4 by 10 times. In 2006, the domestic investment in Botswana stock market was 46 per cent of GDP and for the same year financial contractual savings managed by pension funds and insurance companies were about 69 per cent of GDP. In 2002, contractual savings in Mauritius were about 50.8 per cent of GDP while the investment in the stock market for the same year was about 28 per cent of GDP. For Zambia, Zimbabwe and South Africa the ratio of contractual saving to GDP is lower the same ratio for market capitalisation.

The size of the contractual saving for South Africa (see Table 7.3) may be lower than the domestic market capitalisation reported in Table 2.4, in absolute terms, its size is larger than other SADC countries. This reflects the degree of maturity and the robustness of the South African economy compared to others in the region. For Zambia and Zimbabwe, the individual saving capacity is relatively low. Contractual individual savings in Zambia is only 9 per cent of GDP while the stock market capitalisation is 33 per cent of GDP for 2006. In Zimbabwe, contractual saving is only 4.3 per cent of GDP while stock market capitalisation is about 40 per cent of GDP for 2004.

These variations in levels of contractual savings in SADC countries validate some of the arguments in this thesis. For example, the thesis argues that institutional conflict impede long-term saving. Those SADC countries with dominant persisting colonial legacy of institutional conflict, Zambia and Zimbabwe, have relatively low contractual savings than Botswana, Mauritius, Namibia, South Africa and Swaziland where such conflicts are relatively low. It also concurs with the thesis argument that although savings are essential, they are not necessarily a sufficient condition for effective domestic participation in a stock market. In this regard, the thesis argues that, participation in the stock market depends largely on the degree of industrial development, which facilitates the demand for capital.

7.2.5 The effect of ownership structures on participation

In this section, the study examines the extent of ownership concentration in companies listed in SADC stock markets and the likely effects of ownership structures on participation in stock markets. Ownership structures of companies listed in a stock market may give an insight regarding the nature of the institutional environment in a country, which is essential for better understanding and explaining the influence of institutional factors on participation in stock markets. Demsetz and Lehn (1985:1159) suggest that owners of companies are more likely to respond to a noisy environment by holding on to the control of the company.

Generally, ownership concentration of companies listed in SADC stock markets is high. The striking common features in addition to high ownership concentration include the dominance of foreign ownership and listed subsidiary companies. The controlling shareholder in almost all listed companies in SADC countries, as shown in

Table 7.4, is by a founding or a strategic partner - mainly foreign multinational companies. Out of a sample of 14 listed companies in Botswana, only one has a local institutional investor with a large shareholding. In Zambia, eight out of the nine companies included in the sample are controlled by a foreign parent company.

The ownership structure of companies listed in the Swaziland stock market slightly differs from this trend. Of the others, there are only two out of the six listed companies in Swaziland that are controlled by a multinational company. Three are controlled by domestic institutional shareholders and one by a domestic company.

Table 7.4: Top three large shareholders in SADC listed companies

Largest Block holder [B1]					2nd Largest [B2]			3rd Largest [B3]		
	Founding/ Parent/ strategic partner	G.	C.	Ins.	C.	Ins.	Ind.	C.	Ins.	Ind.
Botswana	13			1	1	12	1	2	11	1
Swaziland	2		1	3	3	3		1	3	
Tanzania	6				1	5			5	1
Zambia	8	1				5			5	

Source: domestic stock markets, company reports and share registers. Key: G- Government; C- Corporation; Ins- Institutional investor; Ind- individual investor. Numbers under each type of large shareholder represent listed companies with that particular type of shareholder as largest, 2nd largest or 3rd largest (whichever is applicable) in a country.

Tables 7.4 and 7.5 indicate that the controlling shareholding for a company listed on SADC stock market is by a foreign company and exceeds 50 per cent. The second largest shareholding, held mainly by local institutional investors (Table 7.5), is too low to provide any alternative influence in the control of the firm.

This dominance of the multinational subsidiary companies in SADC stock markets suggests a rather widespread and dominant foreign ownership of companies in SADC countries. It may also mean that large companies in SADC countries are mainly subsidiary companies. To the extent that large companies in these countries are subsidiaries of multinational companies, it is likely to undermine the efficacy of the domestic stock market as a source of financial capital. Foreign subsidiaries are more likely to be controlled and financed through or by the head office and therefore would not need to access the local stock market for financing their projects. Given the current uncertainties in the institutional environment in most SADC countries, multinational companies listing subsidiaries are likely to issue the minimum shares required to meet the listing conditions while retaining substantial control rights. This will limit the level of participation, in terms of share volume and the number of investors. This argument is consistent with the generally low liquidity (Table 2.5) and high ownership concentration (Table 7.5) in SADC stock markets.

The proposition of widespread subsidiary companies in SADC countries is consistent with the large number of South African companies spread across the SADC region (Table 6.7). Further, as discussed in Chapter 6, the South African company reports suggests that domestic companies in SADC where they do business are small and lack competitiveness. The view that domestic companies are generally small is consistent with the dominant communal culture in most SADC countries. Although data on the structure of domestic companies is not available, the consistency and the convergence of indicators, different reports and views, with all suggesting that domestic companies in most SADC countries are generally small are robust and credible.

Table 7.5: Controlling shareholding

	LBH1				LBH2				T3LBH			
	Mean	Std Dev	Min	Max	Mean	Std Dev	Min	Max	Mean	Std Dev	Min	Max
Botswana	59.7	19.7	16.7	79.0	9.8	3.7	4.0	17.6	74.9	14.1	42.2	88.1
Swaziland	51.8	1.7	50.6	53.0	33.4	8.9	27	39.7	90.2	0.2	90.0	90.3
Tanzania	55.9	5.0	51.0	62.5	12.0	4.8	6.9	20.0	72.6	6.2	62.6	78.8
Zambia	63.6	20.7	24.9	87.6	16.2	12.0	3.8	34.0	87.1	13.0	65.1	99.7

Source: domestic stock markets, company reports and share registers. Key: LBH1= largest block holding; LBH2= second largest holding; T3LBH= top 3 largest holding

7.3 Stock market promotions

This section examines the nature and extent of stock market promotions to enhance participation in the stock market. The annual reports for SADC stock exchanges show that promotions target investors through education and tax incentives, and entrepreneurs through tax incentives. Almost all SADC stock markets have some form of educational program to create awareness and guide investors on how to invest in a stock market. Educational seminars target potential investors while competitions and games based on fictitious portfolios are designed for schools and colleges.

Tanzanian and Zambian governments provide some tax benefits to both investors and the issuers of equity to promote participation in the domestic stock markets. The Tanzanian government offer a reduced tax from 30 to 25 per cent for a period of three years where the issuer has issued at least 35 per cent of the issued shares to the public and allow IPO costs as a tax deduction to encourage companies to list. Investors are exempt from capital gains tax for listed shares and stamp duty on stock market transactions. In Zambia, investors are exempted from capital gains tax and withholding tax on dividends paid by listed companies to individuals. Companies listing on the Zambia stock exchange are allowed 2 per cent corporate income tax discount for the first year of listing and a further 5 per cent for 33 per cent of shares issued to Zambians. Despite the incentives, the number of companies listed on the domestic stock markets remains relatively small.

An overemphasis on creating demand without addressing the short supply is likely to create unprecedented high demand and a further squeeze on the supply of shares. Incentives could work where companies already have the capacity to participate in the stock market. They do not enhance the capacity but motivate companies and investors with the capacity to participate in the stock market.

7.4 Development of property rights and stock market outcomes.

This section discusses the motivations for the formation of stock markets. It then examines the extent to which participation in SADC stock markets relates to the motivations for the formation of stock markets, the nature of the prevailing property rights regimes and the related levels of industrial development.

The evolution of stock markets in SADC countries is consistent with the institutional development path in a country. For instance, in the settler states, where the development of property rights was largely driven by the private ownership interest of the settlers, stock markets emerged on demand to facilitate trading and the development of private property rights. They were formed largely to raise capital following the discovery of minerals in 1800s, which provided the prospects for the generation of wealth. It is argued in this thesis that the motivations for establishment of stock markets in the settlers states, which is consistent with the historical role of the stock market in the capitalist economies, explains their variations from other SADC stock markets, which are not necessarily the consequence of the demand for capital.

In the case of trustee states, the institutional development path shows that the institutional transitions are not imposed. Rather, they are dedicated or influenced by the prevailing circumstances. The transition to colonial policy was induced by eminent political threat from the settler state (South Africa). The indigenous communities appealed for protection from the British government (Chapter 5). Similarly, the establishment was motivated by the endogenous factors (Table 2.2). As discussed in Chapter 2, stock markets in these countries were established by the governments after commissioning their agencies to investigate the benefits to their economies. Although the establishments might have been influenced by the international financial organisations, which promote the development of stock markets in developing countries, there is no indication that they were directly imposed, as was the case in exploitative states for example. There is no suggestion from the reasons given for formation of these stock markets that suggest the increased demand for capital to have been a motivating factor. It is argued in this thesis that this background is consistent with low participation in the trustee states' stock markets.

The institutional development path for the exploitative states shows that, usually, the institutional transition is imposed by the external institutional power (Chapter 5). Similarly, as discussed in Chapter 2, stock markets in these countries were imposed by the external organisations. Although these countries had comparatively high settler economic activities when compared to the trustee states, there is no indication that the establishment of their stock markets was preceded by the demand for capital. Rather, the level of industrial development in these countries is declining (Table 6.5) and the savings level is low and negative in some periods (Table 6.2). It is the contention of this thesis that this background explains the relatively low levels of stock market participation in the exploitative states.

With regard to the last grouping of Mauritius and Namibia, in which stock markets were established by the private sector after a country has acquired its independence, there is a relatively high preference for the private sector (Table 6.6) as compared to other SADC countries, which also established stock markets after gaining independence from the colonial power. However, the low participation, particularly in the Namibian stock market, is inconsistent with the property rights literature predictions of high economic activity where there is greater involvement of the private sector in the economy. This exception is explored later in the chapter.

7.4.1 The settler states stock markets (South Africa and Zimbabwe)

Common institutional features that matter for stock market participation between the two countries are a strong private property rights culture underpinning the ownership and economic organisations and utilisation of economic resources. This, the thesis argues is a consequence of the dominant settler economic activities in the two countries. As discussed in Chapter 5, the colonial policy provided the settlers in these countries incentives to develop property rights and establish property rights institutions that strongly protected their private property rights.

Stock markets in these countries are a further evidence of the dominance of the settler private ownership traditions and property rights institutions. The establishment of stock markets is driven by business prospects and the desire to generate wealth, which created the demand for and motivated the supply of capital. Private ownership as discussed in Chapter 3 provides individuals the incentives to effectively utilise economic resources. This facilitates the demand for long-term capital, which in turn motivates participation in the stock market. The availability of business opportunities preceding the establishment of stock markets in the settler states motivated entrepreneurs to invest, innovate and develop property rights. This created the demand for capital that facilitated company growth and industrial development. It is argued in this thesis that this phenomenon, rather than the age of the settler states' stock markets, explains the variations in stock market participation between the settler states stock markets and others in SADC countries as described in Tables 2.3; 2.4; 2.5; 7.2.

This argument is consistent with property rights economic literature, which predicts efficiency in the utilisation of economic resources when private ownership dominates the nature of property rights in the society (Demsetz 1967; Alchian and Demsetz 1973). Effective use of economic resources provides the opportunity for industrial development (Leblang 1996:7), which facilitates the demand for capital and participation in the stock market (Pontecorvo 1958). It is also in line with the economic and capital market development literature discussed in Chapter 3 that presupposes that the availability of business prospects (Pardy 1992) and the demand for capital (Morgan and Thomas 1962) are necessary conditions for effective participation in the stock market.

With regard to the variations in participation between the settler states' stock markets, this thesis attributes them to the variations in the colonial policy and the consequential nature of institutions or property rights regimes. The efficiency in the utilisation of property rights is a function of the traditions underpinning the ownership and utilisation of economic resources and the security and enforcement of property rights, which is determined by the quality of institutions. As discussed in Chapter 5, while the colonial policy had provided the necessary conditions for these institutional factors to emerge by encouraging European settlement and giving the settlers the economic autonomy in the two states, those in Zimbabwe were limited in the extent to which they could influence change. They had a partial political autonomy, which limited their capacity to fully transform traditional institutions and establish private property institutions. The colonial policy restrictions on the settlers with regard to the rights of the indigenous communities in Zimbabwe, compared to South Africa, created uncertainties and sustained property rights conflicts to this day.

As a consequence, the proportion of land alienated to private ownership (Table 4.2) and the degree of credit offered to the private sector (Table 6.6), which indicates the degree of private ownership influence is higher in South Africa than Zimbabwe. Thus, the extent to which entrepreneurs could use land as collateral to access additional capital essential to finance firm projects and growth is more limited in Zimbabwe than in South Africa. The levels of property rights security and enforcement as indicated by the quality of institutions (Table 5.7; 5.8; 5.9) are better in South Africa than in Zimbabwe. The thesis argues this is because of the persisting institutional colonial conflict in Zimbabwe, which the settlers in South Africa minimised by alienating traditional institutions. This opportunity was limited with regard to settlers in Zimbabwe partly because of the restrictive colonial policy. It is generally agreed in the economic and institutional literature that institutional conflicts creates uncertainties that discourages innovation, long-term savings and investment that are critical for industrial development and participation in the stock market.

The thesis argues that the robustness of performance of the Zimbabwean stock market (Table 7.6) against the almost collapsed economy with the current inflation rate estimated at 2.2 million per cent[46] and acute property rights expropriation threats against the descendants of the European settlers is further evidence of the effectiveness of private ownership in the utilisation of resource. It indicates the efficiency in the re allocation of resources. In the case of Zimbabwe, the financial capital is fleeing from land in fear of government expropriation and the stock market has been a safe haven in this regard. Table 7.6 indicates the performance ranking of African stock markets based on the performance indices. The indices are percentage change rates, for the year 2006 over 2005. Numbers in brackets indicate the ranking of a country's stock market against other African stock markets, with the best performing one ranked first. Despite a decline in the volume traded in 2006, the Zimbabwean stock exchange remains the best performing stock market in Africa, ranking second only after Kenya in the value traded.

[46] http://global.factiva.com/ha/default.aspx accessed 05/08/09.

Table 7.6: African stock market performance ranking

	Return on index		Market Cap		Value Traded		Volume traded	
Botswana	58.30	[2]	52.9	[6]	51.85	[8]	97.58	[2]
Egypt	10.26	[10]	17.6	[11]	79.63	[7]	71.00	[4]
Ghana	4.97	[11]	20.6	[10]	0.92	[12]	20.75	[9]
Kenya	42.10	[6]	85.8	[3]	172.42	[1]	66.40	[5]
Mauritius	49.80	[3]	84.2	[4]	19.90	[10]	30.86	[8]
Namibia	42.42	[5]	30.0	[7]	84.81	[5]	93.87	[3]
Nigeria	37.80	[7]	79.4	[5]	82.27	[6]	37.45	[7]
S. Africa	37.68	[8]	119.0	[2]	85.36	[4]	52.71	[6]
Tanzania			(15.1)	[12]	23.80	[9]	(29.10)	[12]
Uganda	23.23	[9]	29.2	[9]	89.97	[3]	15.42	[10]
Zambia	48.17	[4]	29.6	[8]	10.21	[11]	350.47	[1]
Zimbabwe	3056.14	[1]	1008.3	[1]	170.18	[2]	(17.71)	[11]

Source African Securities Exchange Association (ASEA) yearbook 2006. The ranking is based on percentage change between 2006 and 2005. The numbers in brackets indicate the raking of an individual stock market compared to other African stock markets based on specified performance measures.

7.4.2 Trustee states stock markets (Botswana and Swaziland)

Botswana and Swaziland established stock markets after independence in 1989 and 1990 in anticipation of the economic benefits.[47] In both countries, the government agent (Swaziland Central Bank and Botswana Development Corporation respectively) commissioned studies to establish whether there would be any economic benefits for setting up an exchange. The Botswana stock exchange operated as a share market until 1995, after the enactment of the exchange Act in 1994, while Swaziland commissioned a stock market in 1999 from being an over-the-counter market.

The reasons for the establishment of the Botswana and Swaziland stock markets as summarised in Table 2.2 are generic, thus additional information is required for effective analysis of the motivations for the formation of the stock markets. Additional information for Swaziland stock market is scarce. With regard to Botswana stock market, the World Bank policy evaluation and recommendations entitled “Financial Sector Policies for Diversified Growth” for Botswana published in 1989 gives an insight regarding the perceived role. The World Bank (1989) suggests excess savings and the need for efficiency in its distribution might have influenced the formation of the stock market in Botswana. According to the World Bank report, the idea of a stock market in Botswana formed in 1981 as an alternative way of

[47] The reasons or motivating factors for the formation of SADC stock markets are summarised in Table 2.2 in Chapter 2.

channelling excess liquidity in the economy, to improve efficiency in resource allocation. The assertion that stock markets facilitates efficiency in the allocation economic resources by allocating savings towards projects, which promises higher returns to investors is well accepted in the economic and capital markets literature (Mirowski 1981; Singh 1999). The suggestion that the distribution of savings might have been one of the motivators for the establishment of Botswana stock market is consistent with the country's high savings levels (Table 6.2).

This thesis asserts that domestic firms in most of SADC countries are generally small. The World Bank (1989) provides additional evidence that validate the proposition. It reports that, at the time of the formation of the stock market in Botswana only 15 to 20 private firms were of reasonable size with enough profitability prospects to sell shares to the public and list on the stock exchange. It is unlikely that Botswana might have grown sufficient companies between the present and 1989 when the stock market was established. In 1995, Jefferis (1995) observed that manufacturing companies in Botswana were too small to list in the domestic stock market. The level of industrial development has stagnated with an average of 5 per cent manufacturing sector contribution to GDP for a 20-year period (Table 6.5), the lowest of all SADC countries.

Against this background, this thesis argues that the low participation in Botswana stock market (Table 2.3; 2.4; 2.5; 7.2) is mainly because of the small size of the domestic companies and low industrial capacity to facilitate domestic firm growth. The small size of Botswana companies is consistent with the country's institutional development path of low settler economic activities, the dominance of communal ownership (Chapter 5) and the related low levels of industrial development (Chapter 6). Communal ownership, as discussed in Chapter 3, does not necessarily encourage industrial development because of its failure to motivate innovation and creativity in utilisation of economic resources. Low industrial capacity in Botswana limits the demand for capital, which in turn affects company growth and hence the low participation in the stock market.

7.4.2.1 Institutional and development path effects

Common relevant features related to the institutional development path for Botswana and Swaziland is the relatively low colonial institutional conflicts and the strong traditional values underpinning their contemporary institutions. However, the political institutional structures vary. Swaziland has retained its centralised political power, controlled from the centre by a powerful king, while Botswana has maintained political pluralism. As discussed in Chapter 5, the contemporary political structures in Botswana and Swaziland resemble their pre-independence ones.

This study argues that the variations in the political structures between Botswana and Swaziland partly explain the variations in the quality of their institutions (Table 5.7; 5.8; 5.9). The monarchy in Swaziland has virtually barred political opposition and restrained political freedom for citizens (see Table 5.7). The corruption level is perceived to be relatively high (see Table 5.9). However, on average the regime has a moderate to high level of protection of property rights (see Table 5.8). This could be related to the high concentration of wealth on the monarchy. In addition to the concentration of the political power, the Swaziland monarchy also controls the nation's property through a royal investment fund Tibiyo Taka Ngwane. The investment of this fund is spread across almost all sectors of the economy including the stock market. The fund has also been used to attract foreign capital by forming joint ventures with multinational companies. The return on this investment fund accrues to the royal family not the official government treasury (MacMillan 1985:654; Griffiths and Funnel 1991:60).

Although Botswana and Swaziland differ in terms of the structure of the economic resources, the variations in their industrial structures, in particular the degree of reliance on the manufacturing sector for GDP, are consistent with the variations in the extent of settlers' economic activities including the ownership of economic resources. For example, Swaziland, which greatly relies more on the manufacturing sector for its GDP contribution than Botswana (Table 6.5), had comparatively high settler economic activities (Chapter 6) and the proportion of land transformed into private ownership (Table 4.2), which indicates the extent of the settler's impact on the economic structures. This further confirms the effectiveness of private ownership in enhancing efficient use of economic resources.

This variation confirms the effectiveness of private ownership and the influence of traditions underlying the ownership and utilisation of resources with regard to production activities. However, it is inconsistent with the economic literature predictions with regard to participation in Swaziland stock market. The degree of industrial activities for Swaziland is not reflected in the country's stock market participation (Table 2.3; 2.4; 2.5; 7.2). This outcome demonstrates the observation in Chapter 6 that Swaziland lacks the economic capacity in terms of the scale and industrial development to sustain an effective participation in the domestic stock market. The scope of the manufacturing industry in Swaziland is narrow and is dominated by textile and agricultural products. The fact that the formation of the stock market in Swaziland was not motivated by the demand for capital by the private sector validates the argument that despite the degree to which Swaziland relies on the manufacturing sector for its GDP, the sector is not mature.

For Botswana, the high level of savings (Table 6.2) and good quality of institutions (Table 5.7; 5.8; 5.9) are not consistent with the degree of participation in the stock market. The low participation in the Botswana stock market, despite the relatively high savings levels in the economy (Tables 6.2; 7.3) and good quality institutions that protect property rights (Table 5.7; 5.8; 5.9), suggests that these factors are essential but not necessarily sufficient conditions for effective participation in the stock market.

This phenomenon suggests that the generally low participation in these countries' stock markets may be related to the persisting influence of the underlying traditional value systems on economic choices and low industrial development that is common in these two countries. Other institutional factors that are common to the two countries, which also contribute to the low participation in stock markets, are their small population size and their continued dependence on South Africa for manufactured foods. Investor participation is a function of the population size and their financial capacity. The population size influences the number of participants whose ability to participate depends on their financial capability to invest long-term through the stock market. Small population size can also limit participation in the stock market indirectly by limiting the scope and scale of the country's industrialisation due to consequential low demand for manufactured goods. Thus, the lower the demand for manufactured goods, the lower the industrial activities and demand for long-term capital and consequently low participation in the domestic stock market.

The continued dependence of the former trustee states on South Africa discussed in Chapter 6 will impede participation in the stock market through its impact of the capacity of the these countries to develop their own industries. As explained in Chapter 5, the origin of the economic dependence is the colonial policy, which established trustee states as a product and labour markets for the Union of South Africa.

7.4.3 Exploitative states stock markets (Malawi, Tanzania, Zambia)

Stock market establishment in Malawi, Tanzania and Zambia is part of the international financial institutions' recommended economic reforms. They are to facilitate privatisation of the government-owned enterprises. Compared to the trustee states, which like the exploitative states were British protectorates, Malawi, Tanzania and Zambia inherited some established industries at different levels of development, which they nationalised after gaining independence from Britain. Privatisation in this case, was to facilitate the transfer of government economic assets to private ownership, mainly to improve efficiency in the utilisation of economic resources. In general, it is agreed in the economic literature that government ownership, just like communal ownership, is an inefficient arrangement. It fails to motivate innovation and creativity, and to encourage efficiency in the utilisation of resources. Government employees who control the use of resources have no ownership rights, and thus have no incentive to make additional investments to reduce costs and improve quality through creativity and innovation (Shleifer 1998:137-142). From the perspective of the IFI, privatisation of government-owned enterprises through the stock market encourages broader participation and thus improves efficiency in the use of resources (World Bank 1989:168).

However, despite the high number of privatised companies in these countries, those channelled through the stock market are a very small fraction. Out of the 50 companies privatised in Malawi between 1995 and 2007[48], only five are listed in the stock market. In Tanzania 322 companies were privatised between 1992 and 2005[49] but only seven are listed in the stock market. For Zambia, out of the 262 companies privatised between 1993 and 2006[50] only eight are listed in the stock market. The level of participation in these countries' stock markets remains relatively low despite increased privatisation.

7.4.3.1 Institutional and development path effects

The institutional transformation path dependence for these countries suggests that any institutional transition is unlikely unless there is external institutional pressure, which may be political or economic. Although they were also British protectorates, unlike the trustee states they did not necessarily solicit this imperial protection. Protection in the exploitative states was preceded by property rights conflicts between settlers and indigenous communities. These conflicts persisted probably because of the imperial government's dual policy of protecting the rights of both parties at the same time. Indigenous communities continued their resistance to colonial rule, which intensified towards their independence from Britain in the 1960s. After independence, the indigenous political elites centralised both political power and economic control of economic assets. The transition from a centralised system to a participatory political system and market-oriented economy, which included the establishment of stock markets, was due to external and internal uprising by the society following the economic decline, which critics attributed to the failure of policies introduced by the African elites after independence. That is, in line with a country's property rights development path, stock markets in Malawi, Tanzania and Zambia did not emerge on demand. Rather, they were imposed by the IFI.

Although participatory elections are held periodically, the process is always clouded by corruption and violence. However, unlike the extractive states, the institutional

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[48] Malawi Privatisation Commission; http://www.privatisationmalawi.org/ accessed on 15/06/08.
[49] Tanzania government;http://www.tanzania.go.tz/economicsurvey1/2005/part2/privatesector.htm accessed on 15/06/08.
[50] Zambia Privatisation Agency; http://www.zpa.org.zm/ accessed on 15/06/08.

conflict, although persisting, is in general moderate. The protests are usually peaceful. Nonetheless, the continuance of these institutional and transitional conflicts creates uncertainties that are likely to scare away investors and deter long-term investments.

This study argues that declining and low industrial activities (Table 6.5), low savings levels (Table 6.2) and the low stock market outcomes (Table 2.3; 2.4; 2.5; 7.2) (and consequently participation in the stock markets) are associated with institutional uncertainties and weak property rights institutions. Although the level of protection of property rights, as provided by the Heritage Foundation, is moderate (see Table 5.8), the perceived corruption level is high (see Table 5.9) and the political regimes fail to uphold democratic principles to provide citizens the right to political freedom, choice and liberty (see Table 5.7).

Stock market outcomes in these countries are relatively low by world standards (see Tables 2.3; 2.4; 2.5; 7.2). Zambia has comparatively high levels of industrialisation and participation in the stock market followed by Malawi and finally Tanzania. Similarly, the exploitative states rank below the settler states in terms of both the industrial capacity and the level of participation in the stock market. Their low ranking against Botswana in terms stock market outcomes can be attributed largely to the high savings levels in Botswana referred to earlier.

7.4.4 Special cases (Mauritius and Namibia)

Despite variations in their historical background, Mauritius and Namibia have sufficient institutional commonalities that justify their grouping together. They are the only two post-independence SADC stock markets established by the private sector, aided by government legislation. This is consistent with the dominant role of private ownership in these countries as shown by the relatively high credit offered to the private sector (Table 6.6).

The leading role of the private sector in the establishment of stock markets in Mauritius and Namibia presupposes a reasonable level of demand for capital and the willingness of companies to supply shares by listing on the domestic stock market.

Similarly, the high and growing savings level (Table 6.2), high investor capacity or liquidity (Table 7.3) and the good quality institutions (Table 5.7; 5.8; 5.9) indicate a positive institutional environment likely to enhance participation in Mauritian and Namibian stock markets. An adequate or reasonable demand for and supply of capital in the economy, where private property rights are adequately protected, is likely to enhance participation in the stock market. Therefore, theoretically, within the scale limitation because of their small size, Mauritius and Namibia should have better than other post-independence SADC stock markets.

While it could be argued that given the scale limitation, the number of companies listed in the Mauritian stock market reflects a reasonable participation, the level of stock market outcomes in the Namibian stock market is by all standards low (Table 2.3; 2.4; 2.5; 7.2). The disparity between stock market participation in the two countries correlates with the variation in their industrial capacity discussed in Chapter 6. For instance, based on the United Nations Industrial Development Organisation classifications, Mauritius has a fairly well developed industrial structure while Namibia is in the intermediate stage of industrial development (Table 6.5). Although Mauritius has high economic capacity in terms of the levels of industrial development and savings, Namibia has high liquidity in terms of assets controlled by institutional investors (Table 7.3). The comparatively high number of listed companies in the Mauritius stock market compared to the Namibia stock market, with both states exhibiting variation in their aggregate levels of industrial development, further supports the argument in this thesis that industrial development is critical for participation in the stock market.

Although Mauritius and Namibia have a strong private property rights culture underpinning the ownership and utilisation of economic resources, their respective institutional development path differs significantly; this may be used to explain the disparity in their economic and stock market outcomes and consequently participation in the domestic stock market. Mauritius had no indigenous community while Namibia is one of the SADC countries that are predominantly Bantu-speaking. This suggests that Mauritius compared to Namibia does not have the underlying colonial property rights ownership conflict common in the Bantu SADC countries. While conflicts are common among all the Bantu SADC countries, their degrees and impact varies. In some, they are dominant while in others they are either not significant or latent. In Namibia, although private ownership dominates the ownership of economic resources, there is a latent property rights ownership conflict associated with the nature of the colonial policy towards the indigenous communities. It appears that the extent to which this salient ownership conflict becomes a threat depends on the nature of the contemporary political power. For example, prior to 2005, Namibia had strong property rights rating. Its low rating for private property rights protection from 2005 (see Table 5.8) is directly associated with the increase of the degree of the threat of government expropriation of white-owned land following the change of political leadership in 2004. According to Heritage Foundation reports, the new president, Hifikepunye Pohamba, demonstrated the determination to compulsorily purchase the white-owned farms for redistribution than the predecessor. The threat of expropriation of property according to the reports is significant.

Although this study has assumed Namibia to be part of South Africa for purposes of establishing the institutional transformation path and argued that South Africa minimised institutional conflicts by alienating traditional institutions, the degree of influence South Africa had over Namibia was to some extent limited. The League of Nations mandate, which allowed South Africa to administer and legislate Namibia, (although South Africa did violate it in 1947 when it declared the territory part of its possession), did not give it full political power over Namibia (Wellington 1967:321-340). This could have limited the nature and extent of economic activities in Namibia compared to South Africa. For example, in South Africa 72 per cent of land is privately owned and only 14 per cent remained under communal ownership, while in Namibia privately owned land is 44 per cent and 43 per cent is communally owned (see Table 4.2). The extent of industrial development at independence of the then South African white government also differed. In 1990 when Namibia gained independence from South Africa, 26.6 per cent of the population were living in urban areas. In 1990, the urbanisation rate in South Africa was 48.8 per cent (Table 5.4). This supports the high private ownership influence and consequently higher industrial activity in South Africa than in Namibia, which partly explains the variations in the levels of economic and stock market outcomes.

Although the stock market in Namibia, like in Mauritius, was established by the private sector, it appears that the incentive was not necessarily the demand for capital, which is usually associated with the increase in the business and firm profitability prospects. According to the Namibian stock market, the idea of a stock market was formed "as people planned to build an independent economy ahead of the 1990 national independence from South African occupation…funding came from 36 leading Namibian businesses, representing a full cross-section of interested parties in developing capital markets."[51] On the other hand, the IMF (2007:46) suggests that low firm participation in Namibian stock market is because local firms are not interested in listing on the national stock market.

Against this background and given the persistently low participation in the Namibian stock market, it would appear that, at the time of the formation of the stock market, the private sector (which was predominantly South African) was anticipating some form of property rights threats following the ultimate political transition from South Africa to indigenous Africans. Thus, the motivation for establishing a stock market was not necessarily the demand for capital and business prospects, which explains the relatively low economic and stock market outcomes and consequently participation in the Namibian stock market.

The ownership of economic assets in Namibia is still predominantly South African. In fact, the IMF (2007:44) observes that the financial sector in Namibia is a South African extension. Namibia has the highest concentration of South African subsidiary companies than any SADC country (Table 6.6). Under these circumstances, the lack of interest of Namibian companies observed by IMF (2007:46) could mean that most of the domestic incorporated companies are in fact subsidiaries of the multinational companies, most of which linked to South Africa and had no need for local capital as they are most likely financed by the head office.

The variation in levels of companies listed in the Mauritian and Namibian stock market is consistent with the institutional variations described in the preceding paragraphs. The case of Namibia in particular, further supports the argument in the

[51] http://www.nsx.com.na/about.php accessed on 13/07/2008.

thesis that effective participation in the stock market is unlikely unless the stock market formation is motivated by the demand for capital. The number of domestic companies listed in the Namibia stock market is among the lowest (Table 2.3) despite the positive institutional environment, which includes high liquidity in the hands of institutional investors (Table 7.3), and the fact that the stock market was established by the private sector.

7.5 Influence on participation

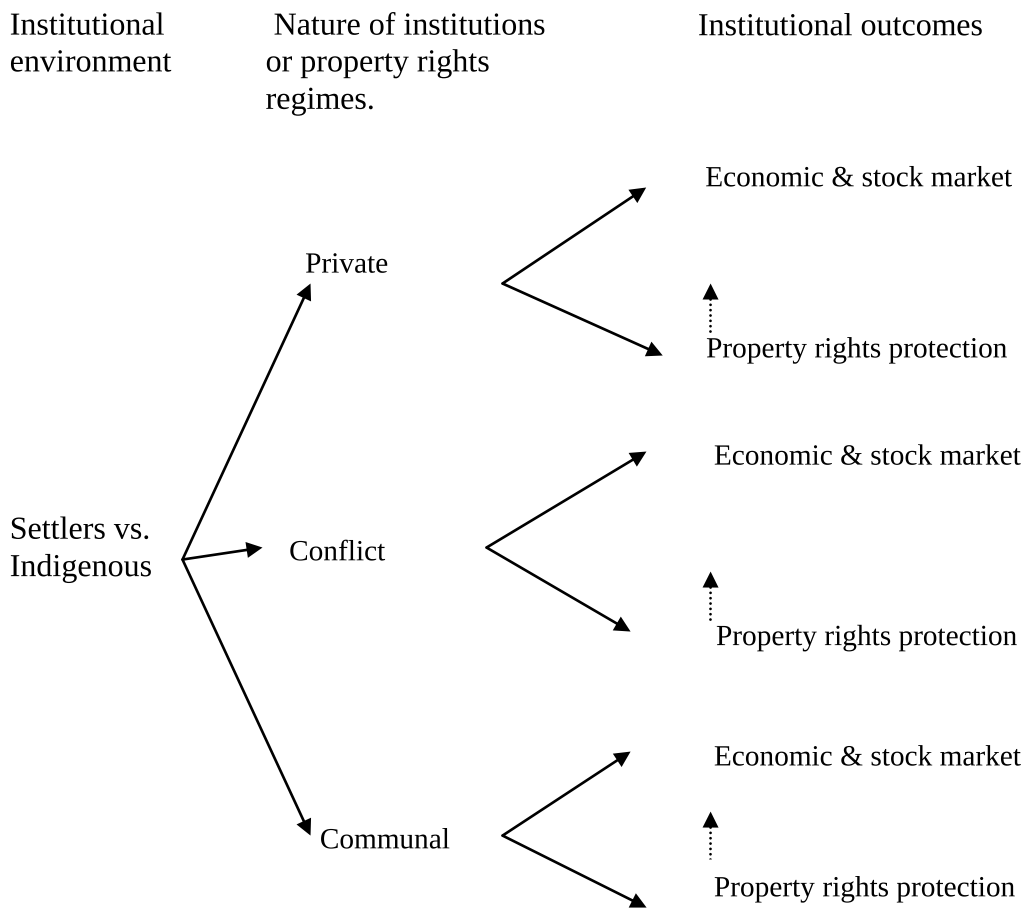
The qualitative analysis that is the core of this thesis implied some possible associations between some variables used as proxies for specific phenomena and outcomes. This section examines such associations, mainly to elucidate the nature of institutional influence and expound the understanding of the effects of property rights regimes on the economic and stock market outcomes in SADC countries. In addition, this provides the opportunity to see if there are alternative explanations that could have not been evident without statistical analysis. In essence, the regression analysis presented in this section provides support for the results of the qualitative analysis reported in Chapters 4, 5, 6, and 7. The regression analysis reported in this section cannot stand on its own because it lacks the degree of rigour that is necessary for a conclusive statistical analysis owing to the available numerical data being incomplete and not necessarily comparable across countries. The reported regression analysis is not meant to provide any conclusive evidence but to provide further insight into what has already been established.

Because of the small size of the sample, the non-parametric ranking method is used to examine for association between the key relevant variables, which includes the institutional influence, the size of the economy, economic and stock market outcome measures. The tests for associations between individual variables are based on the Spearman's rank correlation coefficient.

Figure 7.1 shows the patterns of associations and the flow of institutional influence based on the previous findings in this thesis. The analysis in this thesis suggests that the institutional environment in which SADC stock markets operate were influenced by the development of property rights. The process started with the arrival of

European settlers who introduced European type institutions that were inherently in conflict with traditional institutions. The outcome of this was the nature of institutions or property rights regimes in which either private or communal ownership was dominant or the two property rights ownership cultural predispositions were in conflict. The degree of property rights protection varied according to the form or nature of institutions, while the consequential economic and stock market outcomes varied according to the nature of institutions and the degree of property rights protection, which is determined by the quality of institutions described in Chapter 5. Consistent with Acemoglu et al. (2001:1376), this thesis found evidence suggesting that the colonial institutions persist to date, which makes it appropriate to examine for the influence of historical institutions on current economic and stock market outcomes.

Figure 7.1: Flow of institutional influence



The variables that measure the influence of colonialism, institutional outcomes, and economic and stock market outcomes are described in Chapter 3, Table 3.1.
Previous analysis in this study suggests that while legislating private ownership, communal ownership in SADC countries remains highly prevalent. This is a rather more subtle form of institutional conflict that might not be easily modelled based on economic rationality concepts. It is therefore important to have this limitation in mind when interpreting and comparing the regression results with the previous analysis in this study.

7.5.1 Description of variables

Almost all variables used in this section, with the exception of the levels of investment, were used in previous analysis in this thesis. The level of investment is the only variable introduced at this stage because of its theoretical importance as a measure of demand for and supply of financial capital. It is also important to note that market capitalisation in this section is not expressed as a percentage of GDP. Rather, it is the absolute value, which is the number of issued shares multiplied by their value.

All variables with the exception of the number of settlers and GINI coefficient are the mean for the years 2001 to 2006. The number of settlers is given as at 1956 and 1960 and is as described in Table 5.2. Although the GINI coefficient is obtained from the 2006 World Bank report, it is in fact for the 1990s and 2000s. It appears that these are the latest data available, as the same GINI coefficient is also used in the World Bank and United Nations development reports for the years immediately preceding 2006. Despite the fact that the period for these data sets does not match with the period for the other data sets, the variables are less likely to suffer from time lag. As indicated earlier, institutions associated with settlers survived to this date, suggesting their strong influence on contemporary institutional outcomes. The income or wealth distribution as measured by the GINI coefficient is less likely to vary significantly in the short term.

7.5.2 Correlations between measures of the same factor

This section examines the associations between the variables that measure particular institutional aspects or outcomes. The Spearman's correlations coefficients matrices, indicating the associations between the variables used in this thesis are presented in Tables 7.7 to 7.12. Table 7.13 summarises coefficients and their probabilities for all relevant variables.

7.5.2.1 Influence of colonial property rights traditions

As discussed in Chapters 4 and 5, prior to colonialism, the social structures of the indigenous communities in SADC countries were underpinned by a strong communal ownership culture that influenced not only their social relationships but also their economic preferences and choices. Colonial policy introduced institutions that were underpinned by a strong private ownership culture and sought to align traditional institutions with it through transformation. Previous analysis in this thesis suggests that the extent of influence of private ownership culture on traditional institutions depended on the number of settlers and their degree of political autonomy, which was essential to exert influence. Therefore, the number of settlers in each country is used as a proxy of the capacity of the settlers to transform traditional institutions and exert private ownership culture.

The urbanisation rate and the level of credit offered to the private sector are outcomes that capture the extent of the settler private ownership influence on pre-existing indigenous social and economic structures. Urbanisation rate at the time of a country's independence from the colonial power implies the relative levels of colonial influence on the social structures, while credit offered to the private sector captures the preference and level of private ownership influence. The argument underlying the urbanisation rate is that the increased level of settlers' economic activities pulled the indigenous communities to the urban areas. As people move to the urban areas, their tastes and preferences changes and as such they are more likely to choose financial assets over traditional forms of investment, and prefer private ownership to communal ownership. Consequently, these changes are likely to increase participation in the stock market. The Spearman's correlation coefficient shows a significant positive association between the urbanisation rate and all economic outcomes, (except the manufacturing value added, which is positively correlated but insignificant (p= 0.075)) and stock market outcomes (Table 7.13). This outcome is consistent with the proposition in this study.

Previous qualitative analysis has shown that countries that had a relatively large number of European settlers also had a relatively high number of people living in urban areas when a country gained independence. Furthermore, they tend to have high levels of credit offered to the private sector. This outcome is supported by the significant Spearman rank correlation coefficients reported in Table 7.7), in particular the association between the number of settlers and the credit offered to the private sector is consistent with the proposition in this thesis linking European settlers with private ownership and the high preference for private sector participation in the economy.

Table 7.7: Rank correlations among the colonial influence (private ownership) variables

	Settlers	Urbanisation	Credit
Settlers	1.000		
Urbanisation	0.429 (p=0.067)	1.000	
Credit	0.595 (p=0.029)	0.381 (p=0.082)	1.000

Settlers refer to the number of European settlers in a country as at 1956 and 1960. Credit is level of credit offered to the private sector (average 1990, 2000, 2004 and 2005). Urbanisation is average rate (average 1990, 1995 and 2000).

7.5.2.2 Quality of institutions

The political freedom, property rights protection and corruption indices are used as alternative indicators of the quality of institutions with regard to the protection of property rights. In general, the analysis in Chapter 5 shows consistency between these indices. For example, SADC countries that allow political freedoms for citizens (Table 5.7) tend to protect property rights (Table 5.8) and have relatively low perception of corruption (Table 5.9). The consistency between these variables is supported by their highly positive correlation based on the Spearman’s rank correlation coefficients (Table 7.8). This consistency suggests that countries in which citizens are given political freedom and liberties are more likely to protect private property rights and control corruption better than those that suppress individual political rights and liberties. The significant correlation between these variables further supports their use to measure a single institutional feature.

Table 7.8: Rank correlations among quality of institutions variables

	Political	PRI	Corruption
Political	1.000		
PRI	0.672 (p=0.017)	1.000	
Corruption	0.895 (p=0.001)	0.801 (p=0.005)	1.000

Political is the political freedom index prepared by Freedom House (2001-2006). PRI is the property rights protection index prepared by the Heritage Foundation (2001-2006). Corruption is the corruption perception index prepared by Transparency International (2001-2006)

7.5.2.3 Stock market participation indicators

Stock market participation is measured by two sets of variables. The economic outcome variables, which consists of savings, investment and manufacturing value added. These are proxies for demand for and supply of financial capital. The second set is the stock market development variables or outcomes comprising of stock market capitalisation, the number of companies listed in a stock market, the number of traded shares per year and the turnover, which is the value of traded shares per year. Borrowing from Rajan and Zingales (1998:560), economic outcomes are the “leading indicators rather than causal factors”. Economic outcomes signal participation in stock markets, while stock market outcomes show the level of participation in stock markets. All these variables are used as proxies for participation in stock markets.

Table 7.9 shows the Spearman’s rank correlation coefficients for economic outcomes, while Table 7.10 shows the rank correlation coefficient for stock market outcomes. Table 7.11 shows the rank correlation coefficient matrix for the economic and stock market outcomes. The highly significant positive association between the economic outcomes (Table 7.9) and between the stock market outcomes (Table 7.10) validates the grouping of the variables to measure a single outcome. The association between the economic and stock market outcomes is positive (Table 7.11) but insignificant. This outcome is inconsistent with the theoretical proposition regarding participation in the stock market. Theoretically, the three economic outcomes indicates the extent of demand for and supply of capital that facilitates participation in the stock market, therefore, they should relate to the stock market development indicators.

This outcome seems to suggest that the development of stock markets in SADC countries is not necessarily driven by the demand for and supply of capital. Whereas this outcome is consistent with the argument in this study, that savings level is essential but not a sufficient condition for participation in the stock market, it is inconsistent with the argument that industrial development is critical for the development and participation in the stock market. This inconsistency could partly, be related to the fact that stock market formations in most SADC countries are not motivated by the market demand for capital but are rather products of an institutional policy.

Table 7.9: Rank correlations among the capital demand and supply variables

	Investment	Savings	MVA
Investment	1.000		
Savings	0.952 (p=0.000)	1.000	
MVA	0.714 (p=0.011)	0.571 (p=0.003)	1.000

Investment is the gross capital formation expressed in USD (2001 – 2006). Savings is the gross savings expressed in USD (2001 – 2006). MVA is the manufacturing sector contribution to GDP (Gross Domestic Product) in US dollars (USD) (2001 -2006).

Table 7.10: Rank correlations among stock market development variables

	Mcap	Company	Value	Volume
Mcap	1.000			
Company	0.833 (p=0.003)	1.000		
Value	0.929 (p=0.000)	0.833 (p=0.003)	1.000	
Volume	0.690 (p=0.014)	0.857 (p=0.002)	0.833 (p=0.003)	1.000

Mcap is the market capitalisation, which is the volume of listed shares multiplied by their value expressed in USD. Volume is the number of traded shares per year. Value refers to the value of traded shares (turnover) in USD. Company is the number of companies listed in SADC countries. All variable averages for 2001 – 2006.

Table 7.11: Rank correlations among the demand and supply of capital, and stock development market variables

	Investment	Savings	MVA
Mcap	0.429 (p=0.067)	0.429 (p=0.067)	0.405 (p=0.075)
Company	0.119 (p=0.188)	0.214 (p=0.146)	0.071 (p=0.210)
Value	0.357 (p=0.090)	0.333 (p=0.097)	0.238 (p=0.134)
Volume	0.048 (p=0.220)	0.024 (p=0.234)	0.119 (p=0.188)

Mcap is the market capitalisation, which is the volume of listed shares multiplied by their value expressed in USD. Volume is the number of traded shares per year. Value refers to the value of traded shares (turnover) in USD. Company is the number of companies listed in SADC countries. All variable averages for 2001 – 2006. Investment is the gross capital formation expressed in USD (2001 – 2006). Savings is the gross savings expressed in USD (2001 – 2006). MVA is the manufacturing sector contribution to GDP (Gross Domestic Product) in US dollars (USD) (2001 -2006).

7.5.3 Correlations between key variables

This section focuses on the associations between a range of variables, which the thesis argues are associated with the levels of participation in SADC countries and the economic and stock market variables. These variables and their correlation coefficients are presented in table 7.12. While the context in which other variables are used may be self-explanatory, the credit offered to the private sector needs further explanation. As explained previously, credit offered to the private sector expressed as a percentage of GDP indicates the degree of colonial influence on the economy. Previous analysis in this thesis shows this ratio to be consistent with the number of settlers, that is, it varies according to the number of settlers in a country. The support for the private sector is high where private ownership has greater influence on the utilisation of economic resources than where economic assets are not alienated.

The ratio of credit offered to the private sector is used in other studies as a proxy for financial development (Rajan and Zingales 1998; Claessens and Laeven 2003) and for private property rights indicator (Leblang 1996). These two contexts are relevant for purposes of this thesis. Financial development determines participation in stock markets as it makes it easier for investors and entrepreneurs to meet and exchange financial capital and securities (Rajan and Zingales 1998). The argument is that, financial development reduces the cost and allows firms to access external finance (Rajan and Zingales 1998; Demirguc-Kunt and Maksimovic 1998). As such, participation in stock markets should differ according to the level of financial development in a country.

Leblang (1996:12) uses credit ratio to the private sector as a measure of the commitment of the government to protect private property rights, capturing the extent to which resources are available for private sector activity. Leblang (1996:12) also suggests that the level of credit offered to the private sector indicates the relative importance of state ownership and size of the public sector. Interpreting the association results based on the latter proposition could be problematic in the case of SADC countries, as their economic structures differ. This thesis found relatively low production and high dependence on imports for goods in trustee states and evidence of government ownership in the exploitative and extractive states, although this was changing as countries were privatising government-owned enterprises. This suggests that Leblang's (1996) latter proposition might be relevant for exploitative and extractive states. In the case of trustee states, low credit offered to the private sector may not necessarily indicate higher involvement of the government in the production of goods. In other words, the lower involvement by the private sector does not necessarily suggest high government involvement in production of goods. Rather, it could also suggest low production and high dependence on imports for both consumption and industrial goods.

However, the Spearman's rank correlation coefficient results show a generally weak association between the credit offered to the private sector and the economic and stock market outcomes, particularly the economic outcomes (Table 12). The association between the level of credit offered to the private sector and stock market is significant for listed companies $p=0.024$ and marginal for market capitalisation $p=0.082$, volume of traded shares $p=0.090$. For turnover $p=0.134$. Although the association between the credit to the private sector and stock market outcomes are generally not that strong, it is marginal with most significant at 10 per cent, which suggests that the private sector has greater influence on the stock market outcomes than economic outcomes.

Table 7.12: Rank correlation among stock market participation related variables

	Settlers	Credit	Population	GDP	PRI	GINI
	0.071	0.143	0.190	0.881	0.447	0.214
Savings	(p=0.210)	(p=0.176)	(p=0.155)	(p=0.001)	(p=0.061)	(p=0.146)
	0.119	-0.050	0.333	0.929	0.230	-0.071
Investment	(p=0.188)	(p=0..220)	(p=0.097)	(p=0.000)	(p=0.146)	(p=0.210)
	0.643**	0.119	0.500	0.738	-0.179	-0.238
MVA	(p=0.021)	(p=0.188)	(p=0.049)	(p=0.009)	(p=0.166)	(p=0.134)
	0.571	0.381	0.476	0.690	-0.192	
Mcap	(p=0.033)	(p=0.082)	(p=0.054)	(p=0.014)	(p=0.155)	0.024
	0.524	0.619	0.286	0.333	0.077	0.286
Company	(p=0.043)	(p=0.024)	(p=0.115)	(p=0.097)	(p=0.210)	(p=0.115)
	0.452	0.238	0.619	0.595	-0.268	-0.167
Value	(p=0.061)	(p=0.134)	(p=0.024)	(p=0.029)	(p=0.125)	(p=0.166)
	0.571	0.357	0.595	0.238	-0.217	-0.167
Volume	(0.033)	(p=0.090)	(p=0.029)	(p=0.134)	(p=0.146)	(p=0.166)

Settlers refer to the number of European settlers in country as at 1956 and 1960. Credit is level of credit offered to the private sector (average 1990, 2000, 2004 and 2005). Population is the average SADC population for 2001 -2006. GDP is the gross domestic product expressed in USD (2001-2006). PRI is the property rights protection index prepared by the Heritage Foundation (2001-2006). GINI coefficient measures the distribution o wealth. Savings is the gross savings expressed in USD (2001 – 2006). Investment is the gross capital formation expressed in USD (2001 – 2006). MVA is the manufacturing sector contribution to GDP (Gross Domestic Product) in US dollars (USD) (2001 - 2006). Mcap is the market capitalisation, which is the volume of listed shares multiplied by their value expressed in USD. Volume is the number of traded shares per year. Value refers to the value of traded shares (turnover) in USD. Company is the number of companies listed in SADC countries. All variable averages for 2001 – 2006.

Table 7.13: Spearman's coefficients and probabilities (all variables)

		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**
Settlers	**1**	1	0.067	0.029	0.198	0.097	0.166	0.234	0.029	0.097	0.188	0.210	0.021	0.033	0.043	0.061	0.033
Urbanisation	**2**	0.430	1	0.082	0.038	0.155	0.075	0.146	0.134	0.009	0.033	0.024	0.075	0.001	0.003	0.004	0.024
Credit	**3**	0.600	0.381	1	0.097	0.134	0.146	0.011	0.220	0.220	0.220	0.176	0.188	0.082	0.024	0.134	0.090
Political	**4**	0.110	0.552	0.331	1	0.017	0.001	0.082	0.176	0.021	0.009	0.002	0.090	0.115	0.097	0.125	0.146
PRI	**5**	-0.350	0.204	0.243	0.672	1	0.005	0.011	0.029	0.220	0.146	0.061	0.166	0.155	0.210	0.125	0.146
Corruption	**6**	-0.180	0.41	0.217	0.895	0.801	1	0.054	0.210	0.082	0.054	0.017	0.220	0.188	0.125	0.176	0.198
GINI	**7**	-0.020	0.214	0.714	0.381	0.728	0.494	1	0.033	0.198	0.210	0.146	0.134	0.234	0.115	0.166	0.166
Population	**8**	0.600	0.238	0.048	0.160	-0.600	-0.070	-0.570	1	0.054	0.097	0.155	0.049	0.054	0.115	0.024	0.029
GDP	**9**	0.330	0.738	0.048	0.638	0.051	0.398	-0.100	0.476	1	0.000	0.001	0.009	0.014	0.097	0.029	0.134
Investment	**10**	0.120	0.571	-0.050	0.737	0.230	0.482	-0.070	0.333	0.929	1	0.000	0.011	0.067	0.188	0.09	0.220
Savings	**11**	0.070	0.619	0.143	0.859	0.447	0.675	0.214	0.190	0.881	0.952	1	0.033	0.067	0.146	0.097	0.234
MVA	**12**	0.640	0.405	0.119	0.356	-0.180	-0.050	-0.240	0.500	0.738	0.714	0.571	1	0.075	0.210	0.134	0.188
Mcap	**13**	0.570	0.905	0.381	0.282	-0.190	0.120	0.024	0.476	0.690	0.429	0.429	0.405	1	0.003	0.000	0.014
Company	**14**	0.520	0.833	0.619	0.344	0.077	0.277	0.286	0.286	0.333	0.119	0.214	0.071	0.833	1	0.003	0.002
Value	**15**	0.450	0.810	0.238	0.270	-0.270	0.157	-0.170	0.619	0.595	0.357	0.333	0.238	0.929	0.833	1	0.003
Volume	**16**	0.570	0.619	0.357	0.209	-0.220	0.096	-0.170	0.595	0.238	0.048	0.024	0.119	0.690	0.857	0.833	1
		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**

This table combines the Spearman's rank probabilities (above the coloured area) and coefficients (below the coloured area). The numbers in "bold" represent the variables that appear on the left side of the table. Settlers refer to the number of European settlers in country as at 1956 and 1960. Credit is level of credit offered to the private sector (average 1990, 2000, 2004 and 2005) Urbanisation is average rate (average 1990, 1995 and 2000). Political is the political freedom index provided by Freedom House (2001-2006). PRI is the property rights protection index prepared by the Heritage Foundation (2001-2006) Corruption is the corruption perception index prepared by the Transparency International (2001-2006). GINI coefficient measures the distribution o wealth. Population is the average SADC population for 2001 -2006. GDP is the gross domestic product expressed in USD. Mcap is the market capitalisation, which is the volume of listed shares multiplied by their value expressed in USD. Volume is the number of traded shares per year. Value refers to the value of traded shares (turnover) in USD. Company is the number of companies listed in SADC countries. All variable averages for 2001 – 2006. Investment is the gross capital formation expressed in USD (2001 – 2006). Savings is the gross savings expressed in USD (2001 – 2006). MVA is the manufacturing sector contribution to GDP (Gross Domestic Product) in US dollars (USD) (2001 - 2006).

7.5.3.1 European Settlers

Of interest here is the nature and extent of influence of settlers on economic and stock market outcomes and consequently participation in stock markets. Previous analysis in this study found that, comparatively, countries with high support for the private sector also had relatively high industrial output and participation in stock markets. The study argued that this was because of the dominant influence of private property ownership culture of the settlers as these countries also tended to have a high number of settlers than others. This argument is consistent with property rights literature discussed in Chapter 3, which associates effective use of resources and the subsequent better economic outcomes with private ownership compared to an in efficient communal ownership arrangement. Private ownership, this study argues, reflects the European culture underpinning the ownership and utilisation of economic resources while communal ownership reflects the indigenous SADC Bantu culture underpinning the ownership and utilisation of economic resources.

The results of the Spearman rank correlation coefficient of the economic and stock market outcomes on the number of settlers (table 7.12) is consistent with this study's proposition that private ownership of property as measured by the number of settlers has strong influence on the industrial and financial development, and consequently participation in the stock market. There is a significant association between the number of settlers and all stock market outcomes with the exception of the turnover value (table 7.12). The association between the turnover value and the number of settlers is positive with the correlation coefficient of 0.452 and p=0.061. For economic outcomes variables, with the exception of manufacturing sector's contribution to GDP other variables positively correlated but insignificant.

The insignificant association between the number of settlers and level of savings and investment could be explained by the nature of the data used as a proxy. Savings and investment data used in this study are aggregates and are likely to be dominated by government activities than by the private sector.

7.5.3.2 Property rights security

Property rights protection measures the extent to which the laws in a country protect private property rights from expropriation including expropriation by the state. To operationalise property rights protection, this thesis uses the index of property rights protection from the Economic Freedom index prepared by the Heritage Foundation. This index is used in other studies for a similar purpose (Claessens and Laeven 2003 and Klapper et al. 2006). The advantage offered by Heritage Foundation private property rights protection index is that it covers all SADC countries, while other indices such as the International Country Risk Guide (ICRG) rule of law index includes some but not all SADC countries.

The theoretical proposition is that the extent to which the state protects and enforces private property rights determines the incentives for long-term investment and savings essential to enhance productive activities and business, and consequently participation in stock markets.

The rank correlation coefficients presented in table 7.12 imply that the degree of property protection has no influence on the economic and stock market outcomes. This could suggest that investors and entrepreneurs in SADC countries are not concerned about the protection of private property.

To some extent, it could be argued, based on the rank correlation coefficients between property protection index and the economic and stock market outcomes that at this stage of their economic development, private property protection is less important for participation in stock markets in SADC countries. Consistent with this view, this thesis has argued in the previous analysis that, notwithstanding the accepted view in capital market development literature that private property rights protection is essential to motivate participation in the stock market, it is nonetheless by no means a sufficient condition. That is, despite the theoretical argument for property rights protection to motivate investors and entrepreneurs to meet and exchange their property rights, ultimately, it depends on the availability of business and firm profitability prospects.

As noted by Pardy (1992), the availability of business prospects and firm profitability are the critical prerequisites for participation in stock markets. Property rights protection is secondary. Thus, the concern for private property rights protection becomes critical where there is the capacity to participate. The primary impediment for participation in SADC stock markets as discussed previously is largely because of the lack of capacity due to the small size of domestic firms, which is associated with the type of ownership rights attached to property and the persistent institutional conflicts. Previous analysis in this study found low stock market participation in countries with dominant communal ownership despite the strong property rights protections.

However, this argument is limited in that it is based on a single property rights index, primarily because of lack of data as some SADC countries are not widely assessed by the relevant international organisations.

7.5.3.3 Size of the economy

It is argued in this thesis that the size of the economy, as measured by the population and GDP, is likely to limit the scale of participation in stock markets by limiting the number of participants and the capacity of the economy to sustain large production activities through consumption. Notwithstanding this view, the effects of scale limitation can be minimised by attracting foreign investors and by enhancing industrial capacity through productive efficiency targeting export markets. Against this background, this thesis argues that the size of the economy is related to the economic and stock market outcomes.

The Spearman rank correlation coefficient results, particularly with regard to the influence of population on the economic and stock market outcomes, are mixed and largely insignificant. A strong significant relationship between GDP and economic outcomes could reflect the close association of data variables as macroeconomic factors and as such may not necessarily reflect an overall economic capacity of individuals to participate in a stock market. However, a positive significant association between both size measures and the industrial development proxy, the manufacturing value added, suggests that size of the economy is important to enhance production. In this case, the influence of the scale of the economy on participation would be through industrial development.

7.5.3.4 GINI coefficient

By definition, a GINI coefficient indicates the distribution of income or the concentration of wealth in a country. This study, in the previous qualitative analysis, argued that the degree of concentration of wealth in a country is likely to influence the level of savings and therefore determine the funds available for investment, and consequently this will determine the level of participation in the stock market. The proposition is that income distribution in a country will have a positive influence on the economic and stock market outcomes.

The Spearman’s rank correlation coefficients for the GINI coefficient presented in Table 7.12 seem to suggest that how income or wealth is distributed in SADC countries has no influence on the propensity of an individual to save in financial assets or participate in the stock market. If this is correct, it is inconsistent with the previous argument advanced in this thesis suggesting that low earnings affect participation in stock markets by reducing the capacity of individuals to save. The results are also inconsistent with Marone (2003:25) who suggested that low participation in the Zambian stock market is because of low earnings, which in turn affects the savings level. This thesis and Marone (2003) seem to have relied on the economic theory rationale presupposing that individuals would necessarily save their surplus income or wealth in the form of financial assets. However, this may not be the case in SADC countries.

All things being equal, the possible explanation for this insignificant GINI coefficient is the persistence of high preference for traditional assets and investment schemes by individuals in SADC countries. As discussed in Chapter 4, the survey by the Commission for Africa (2005) found a prevalence of the traditional investment schemes in most parts of sub-Saharan Africa. By definition, these forms of traditional investment are informal and therefore unlikely to be fully counted in the economy.

As a further support for this preference for traditional investments argument, Jefferis (1995:673) observed that a substantial proportion of savings by individuals in Botswana is invested in cattle rather than held in financial assets. Jefferis (1995:668) suggests that one of the reasons for establishing a stock market in Botswana was an attempt to encourage a shift in the form of savings from cattle to financial assets. While this argument may seem contradictory given the high saving levels in Botswana (Table 6.2), in fact it is not. As explained in Chapters 3 and 6, figures presented in Table 6.2 are gross domestic savings, which is gross national disposable income less final consumption. The level of savings in Botswana is likely to be dominated by government high savings derived from diamond revenue. As at the end of 2006, Botswana had around US$8 billion in foreign reserves.[52] This translates to US$4705 per capita.

7.6 Conclusion

The evolution of stock markets in SADC countries is closely linked to the evolution of property rights institutions in each country. This association suggests that the disparity and the level of participation in these stock markets cannot be attributed solely to economic interpretations. In the settler states, where property rights evolved on demand to protect private property rights, stock markets also emerged on demand to facilitate the development and trading of property rights. The trustee states, which appealed to the colonial powers for protection in the best interest of their territories, also established stock markets to explore economic benefits for their countries. The trend in the exploitative states, which is consistent from colonialism through to the current era of stock markets, is that institutional transformations are imposed by external powers.

Stock market outcomes in SADC countries vary according to the nature of the property rights regime, in particular the ownership rights attached to property by the society and their related levels of industrial development. Those countries with a dominant private ownership culture tend to have relatively high participation in stock market than those with dominant communal ownership rights.

[52] http://www.bankofbotswana.bw/files/attachments/r1859068290.pdf accessed on 14/10/2008.

The influence of the nature of property rights on the economic outcome, in particular, the levels of industrial development, and the stock market outcomes and in turn, participation in the stock market is supported by both the qualitative analysis and the non-parametric Spearman's correlation coefficient. Qualitative analysis finds that countries with a high number of settlers, which is the main variable that measures the degree of colonial or private ownership influence, also have relatively developed industrial sector and high participation in the stock market compared to those countries where the influence of settlers was relatively low. Similarly, the rank correlation coefficients between the number of settlers, and the manufacturing value added, which measures the degree of industrial development are positive and significant, with the exception of the value of shares traded, which is positive but insignificant (Table 7.12).

Evidence in this study suggests that the quality of institutions and the related levels of protection of property rights do not necessarily influence the degrees of industrial development and levels of participation in stock markets. Thus, while the levels of industrial development and participation in SADC stock markets could be predicted from the nature of the ownership rights the society attaches to property, it might not be the case with the quality of institutions or with the degrees of private property protection. For instance, Botswana with good-quality institutions, which protects property rights but has a dominant communal ownership, has relatively low industrial development and participation in stock market. On the hand, Zimbabwe with poor quality institutions but relatively high influence of private ownership has relatively high industrial development and participation in stock market. Consistent with this finding, the rank correlation coefficient between the private property rights, protection index and all economic and stock market outcomes is either insignificant or negatively correlated (Table 7.12).

It appears that the channel through which these factors impede participation in stock markets is through low supply of shares. There is evidence of higher demand for shares resulting in excessive oversubscription in those rare cases of initial public offering, suggesting that the main limitation is the supply of shares. This high demand for shares is supported by a relatively high liquidity controlled by institutional investors (see Table 7.3). This thesis argues that the low supply of shares in SADC stock markets is related to the small size of domestic companies, which is a consequence of the dominant communal ownership, the persisting institutional conflicts and the persisting economic dependence in the case of trustee states.

Chapter 8 Summary and Conclusions

This chapter summarises the main findings of this thesis. Section 8.1 summarises the main findings and conclusions. The theoretical and practical implications are outlined in section 8.2. Section 8.3 explains contributions to the literature, while the limitations and future research are addressed in sections 8.4 and 8.5.

8.1 Summary of main findings

To better understand the implications of the findings in this study on the stock market development policies, initiatives and practices, and the contribution they make to the literature to date, it is important to first reiterate the purpose of the study.

The main objective of this research is to explain low domestic participation in SADC stock markets. The study examines the extent to which local participation in SADC stock markets is related to: (1) the reasons given for establishing a particular stock market; (2) the nature of property rights attached by the society to the utilisation of an economic resource and the protection of property rights, and their development processes in the relevant country; and (3) the levels of industrial development in the relevant country. The nature of the research question and the issues examined in this thesis dictated that a qualitative analysis be undertaken. A limited quantitative analysis supports the qualitative analysis.

Based on the conceptualisation of the role and effects of property rights regimes on the economic and stock market outcomes discussed in Chapter 3, and the nature of property rights regimes in SADC countries discussed in Chapters 4 and 5, a framework is developed that explains the role and impact of property rights on participation in stock markets from the context of social structure. As argued in Chapters 1 and 3, this approach, which differs from the conventional approach in the comparative markets and governance literature, is desirable because of the complexities of the development of property rights processes and the nature of property rights in SADC countries.

Chapter 4 analyses the nature, structure and role of traditional institutions, highlighting the extent to which communal ownership reflects the traditions of the indigenous communities in SADC countries. The enduring aspects of the traditional institutions and the nature of influence on contemporary economic decisions, preferences and choices provide the basis for the analysis in Chapter 5. The analysis of the evolution of property rights in Chapter 5 emphasises the prevailing private ownership of property rights in SADC countries as a reflection of the extent of colonial institutions' influence on traditional institutions and the prevailing communal ownership as a reflection of the enduring indigenous traditions. It identifies property rights development processes and their differences, the prevailing extent of the traditional and colonial institutions and how the resultant property rights regimes and practices in a country influences the contemporary economic decisions, preferences and choices.

Based on the framework developed in Chapters 3, 4, and 5, Chapter 6 emphasises the impact of property rights regimes on the economic outcomes and how the economic outcomes relate to participation in the stock market. Chapter 7 emphasises the impact of property rights and economic outcomes on stock market outcomes and hence participation in the stock market.

The analyses in this thesis confirm the precept of the comparative markets and governance literature discussed in Chapters 1 and 3, which suggests that colonialism and the development of property rights shaped the nature of the institutions that influence the development of and participation in the stock market. The findings suggest that the underlying traditional values underpinning the utilisation of economic resources and the way property rights developed matters for the development and participation in SADC stock markets. The levels of participation in SADC stock markets vary according to: the variations in the nature of property rights attached by the society to ownership and utilisation of economic resources; related levels of industrialisation; and the extent of institutional conflicts associated with property rights transformation processes in a country.

These outcomes are consistent with the economic literature on property rights (Demsetz 1967; Alchian and Demsetz 1973; Leblang 1996; Saleh 2004), which predicts greater incentives for effective and efficient utilisation of economic resources and consequently high industrial development when property rights are alienated and ownership privatised. In this context, the ownership rights impact on participation in the stock market through their influence on the levels of industrial development.

Overall, this thesis concludes that low participation levels in SADC stock markets is related to low aggregate levels of industrial development, which in turn is related to the prevalence of communal ownership of property. Traditional property rights regimes, particularly the ownership rights attached to economic resources, impede participation in the stock market in the sense they do not encourage innovation and creativity. As such, they impact negatively on the efficient utilisation of economic resources. Traditional ownership methods limit the capacity of entrepreneurs to raise additional capital essential for firm growth and industrial development because of the inherent characteristics communal ownership of property. Communally owned property cannot be used as collateral to raise additional capital.

The channel through which these factors impact on participation in the stock market is by impeding company or firm growth, which limits its capacity to issue shares to the public. In relation to this assertion, the analysis in Chapter 7 shows that the supply of shares, rather than lack of demand is the limiting factor. There is excess liquidity in the hands of institutional investors and excess demand for shares.

There is evidence in this thesis suggesting that the prevalent conflicts between the imposed European-type property rights and the traditional ones, and those associated with the way property rights in SADC countries are developing affects the levels of participation in the stock markets. Although the evidence is not conclusive, it does not support the comparative markets literature's assertion discussed in Chapters 1 and 3, which suggests that the extent to which property rights institutions protects the rights of investors predicts the levels of participation in a stock market.

The analysis in Chapters 2 and 7 suggests that the demand for capital predicts the levels of participation in the stock market. This proposition is consistent with the supply of shares argument presupposing that property rights affect aggregate level of industrial development and that this is a critical factor with regard to participation in the stock market. Aggregate level of industrial development is indicative of the levels of demand for capital.

8.2 Implications of the thesis findings

The findings in thesis are likely to provide an alternative stock market development framework focusing on developing countries. They are also likely to influence a change in SADC member countries' policies and initiatives promoting the development of regional stock markets.

As described in Chapter 1, the stock market development framework based solely on the comparative markets literature is unlikely to explain participation in SADC stock markets and possibly other developing countries. The comparative markets literature does not adequately address the peculiarities of SADC countries. The analysis in this thesis shows that some of the underlying assumptions of this literature, in particular, with regard to the adequacy of the capital formations, industrial development and the supply of shares do not hold in the case of SADC countries. Industrial development and the consequential demand for capita (supply of shares) is the channel through which property rights regimes impede the development of and participation in SADC stock markets. Although investors in some countries have excess liquidity (see Table 7.3), the level of industrial development in SADC countries is low (see Table 6.5).

The SADC countries' policies and initiatives discussed in Chapter 1 and 2 emphasise the improvement of market infrastructure to create investor confidence; incentives targeting companies are introduced to motivate them to issue shares to the public; and educational promotions aimed at creating investor awareness and motivating investors to participate in the stock market. This approach is inconsistent with the findings in this thesis, which shows that, instead, the demand for shares is in excess. Therefore it is likely that findings in this thesis will influence SADC countries to review their policies and approach towards the development of stock markets. Similarly, the findings in this thesis are also likely to influence the policies of the international organisations that promote the development of stock markets in developing countries.

The degree of variation in the institutional, economic and stock market participation factors in SADC countries further highlights the need to avoid treating African countries as homogenous, with common policies and objectives.

8.2.1 The effects of the development of property rights processes

The analysis in this thesis provides evidence of the property rights development path for each SADC country from colonial times to the contemporary independent states. The findings confirm the proposition of law and finance theory (see La Porta et al. 1997; 1998; 2000; 2008) that colonial policies shaped the nature of institutions, which in turn influenced the economic and stock market outcomes. However, the findings in this thesis differ in that, in SADC countries, the nature of the emergent institutions vary with the nature of colonial policy and not the origins of the legal system or traditions as the law and finance theory asserts. Consistent with Acemoglu et al. (2001), this thesis finds evidence that confirms that European colonial policies differed among colonies and that the legacy of these policies has persisted to date. Although this thesis did not examine Acemoglu et al.'s (2001) proposition that the colonial policies varied among colonies according to the European settlers' mortality rates, it finds that colonial policies in SADC countries varied according to the European colonial power or country and the perceived economic benefits in a territory. Furthermore, particularly in British colonies, colonial policies differed even among the colonies under the same colonial power, largely according to the perceived economic benefits in a territory. The argument for economic benefit as a motivating factor is supported by the correlations between the number of European settlers in a territory or country and the levels of industrial development and stock market participation measures reported in Table 7.13.

In contrast to the legal origins theory's assumption (see La Porta et al 2008), traditional institutions in SADC countries did not adapt to the traditions of the imposed European-type institutions, rather, although indigenous communities could not stop the changes they continued to resist them. This trend of imposition of institutions by external powers and the indigenous communities' resistance to the imposed institutions is consistent from the colonial period to the contemporary SADC states. The degree of this nature of institutional conflict and the consequential nature of institutions varies among SADC countries according the nature of the colonial policy and the extent to which traditional institutions were alienated and replaced by the European-type ones.

Chapter 5 shows that although this type of institutional conflict is common among most SADC countries it is dominant in those countries where the colonial policy towards the indigenous communities was either exploitative or extractive. This outcome implies that, in the case of SADC countries, the development of property rights does not necessarily internalise the externalities. Rather, they tend to create negative externalities in the form of institutional conflicts. Imposing European institutions where African cultural values are deeply entrenched and the traditional institutions coexisted as in the case of SADC countries creates disharmony within the social structure. This incongruence among the institutional structures in SADC countries creates uncertainties and risks, which impede long-term savings and investment that are essential for industrial development. As argued in this study, industrial development facilitates the demand for capital and in turn participation in the stock market.

The variation among SADC countries in terms of the institutional development processes and the subsequent nature of institutions described in Chapter 5, the related economic outcomes as discussed in Chapter 6 and stock market outcomes discussed in Chapter 7 emphasises the earlier argument in this chapter that, despite their common membership, SADC countries are not homogenous and highlights the importance of the processes of establishing institutions. This outcome has implications for the international financial and development organisations that foster institutional transformations in these countries and possibly other developing countries. It is likely, based on the findings in this thesis, that the seemingly failure of the transformation processes in SADC countries is partly because of how the institutional changes were introduced and implemented.

8.2.2 Property rights ownership traditions

The analysis in Chapter 5 reveals that it is not only the way institutional changes in SADC countries are introduced that created conflicts but also the variations in the traditions of ownership and utilisation of economic resources underlying the imposed and the pre-existing institutions. Colonialism imposed institutions that were underpinned by strong Western-type traditions of private property rights, which were inherently in conflict with the pre-existing communal property rights and practices of the indigenous communities in SADC countries. Similarly, this conflict has also persisted to date largely because traditional institutions coexisted with the imposed ones.

The extent of this conflict varies among the contemporary SADC countries based on the nature of the former colonial policy. Communal ownership, which reflects the traditions of the indigenous communities is prevalent in those countries where traditional institutions where protected by the imperial government and in those countries where the colonial policy was extractive while private ownership is dominant where the settlers had some degree of political autonomy. The commonality in the outcomes of the protectorate and the extractive colonial policies with regard the indigenous communities' ownership traditions could be explained by the impact of each policy on the traditions and practices of the indigenous communities. In the protectorates, which were British colonies, traditional institutions were protected, while the extractive policy tended to focus largely on exploiting resources and as such was unlikely to interfere with the traditions unless they became a hurdle towards achieving their objectives. Where the traditions were perceived to be obstacles towards extracting resources, which included labour, brutality towards traditional communities, rather than an attempt to transform traditions or cultural values, was the solution.

The degrees of variations in the resultant property rights ownership traditions in SADC countries further support the argument against the assumption that traditional institutions adapted to the imposed institutions. They also provide further evidence with regard to the nature and extent of colonial influence on traditional institutions. The fact that private ownership is dominant mainly in those countries where the number of settlers in the territory or country was relatively high validates the argument in this thesis that the political autonomy and the number of settlers were important for the transformation of the traditional institutions.

The analysis in Chapter 6 shows consistency between the prevalent property rights ownership traditions in a contemporary SADC country and the levels of industrial development. In those countries where private ownership is dominant the level of industrial development is relatively higher than in those countries where communal ownership is prevalent.. This finding is consistent with the economic property rights literature described in Chapter 3, which presupposes greater incentives for efficient use of economic resources towards industrial development where property rights are alienated.

In Chapter 7, the analysis confirms the influence of industrial development on participation in the stock market as described in Chapter 3. In general, the levels of participation in SADC stock markets are consistent with the degrees of industrial development in a country. Participation in the stock market is relatively higher in those countries where private ownership is dominant than in those countries where communal ownership is prevalent. In general, these relationships between the property rights ownership types and the levels of industrial development and stock market implies that private ownership, rather than communal ownership, is a necessary and essential condition for an enhanced participation in the stock market.

Against this background, given the deeply entrenched communal ownership described in Chapters 4 and 5, it appears that SADC countries are at a crossroad, a position where indifference between private ownership and communal ownership traditions is not a viable option, particularly if SADC countries are to achieve their development goals and enhance participation in their stock market. Although it seem imperative that any strategy to increase participation in SADC stock markets should start with a paradigm shift from the prevailing traditional communal ownership patterns towards private ownership, achieving this would be difficult at least in the short-term. As discussed in Chapters 4 and 5, communal ownership traditions in SADC countries have withstood the test of times. They endured colonialism and the contemporary institutional transformation processes. Institutional implantation of private ownership has so far failed to diffuse this dominant ownership culture, implying that any meaningful transformation of the ownership culture in SADC countries will have to be endogenous. However, this is unlikely without triggering a short-term conflict. Understanding these institutional complexities and the impact on the economic and stock market outcomes will not only inform the SADC policies but also the international financial institutions and development organisations, which promote the development of stock markets in developing countries.

These complexities with regard to SADC countries highlight the importance of local conditions and underscore the importance of considering the location conditions prior to transplanting institutions.

8.2.3 Stock market motivations and participation

The observed consistency between the evolution of property rights and the development of stock markets in SADC countries demonstrates the importance of the institutional environment with regard to development and participation in stock markets and for purposes of their appraisal and evaluation. Thus, the levels of development and performance of SADC stock markets cannot be explained solely by economic factors.

8.3 Contribution to literature

This thesis gives new insights concerning the role and impact of property rights on the development and participation in the stock market.

The current knowledge on the influence of property rights on the economic and stock market outcomes is limited mainly to the elementary role of property rights institutions, emphasising protection of property rights. This thesis enhances our understanding of the impact of other aspects of property rights, in particular, property rights ownership traditions and the property rights development processes on the economic and stock market outcomes and consequently participation in the stock market. It also highlights specific institutional conflicts that also have impact on the resultant property rights regimes and, consequently, the economic and stock market outcomes. Furthermore, this thesis expands the knowledge on the impediments to the development of stock markets in developing countries by providing an understanding of how property rights structures create or are impediments to the development and participation in the stock market.

As argued in Chapter 1, the scope of the comparative markets and governance literature concerning the role and effect of property rights on the development of stock markets in developing countries is limited in that it does not capture the peculiarities of property rights regimes in SADC countries. It is plausible that this applies to all developing countries in which indigenous culture includes strong forms of collective communal ownership. This thesis addresses the deficiency by developing a theoretical framework that incorporates pertinent aspects of property rights and applying it to SADC countries.

In general, the capital markets development literature is largely driven and dominated by the desire to uncover the nature and activities of developed markets. Therefore, furthering the development of a more relevant theoretical framework that focuses on the nature of developing countries is significant.

With regard to the developing countries, this literature focuses largely on emerging stock markets, which are mainly in Asia, East Europe and Latin America. From sub-Saharan Africa, this literature focuses on South Africa and Zimbabwe. Thus, in general, the capital markets development literature does not adequately address issues concerning the small and stagnant stock markets in developing countries. Notwithstanding this limitation, there is a growing literature with regard to the development of stock markets in sub-Saharan Africa including SADC countries. However, this literature does not address property rights factors. This literature is concentrated largely on the role of the stock market in economic development (Jefferis 1995; Adjasi and Biekepe 2006; N'Zue 2006) and financing of the firm (Yartey 2006), stock market efficiency (Ankinkugbe 2005; Jefferis and Smith 2005), and corporate disclosures (Tsamenyi 2007). This literature views the impediments to the development of stock markets in sub-Saharan Africa largely from the perspective of foreign investors. As such, the suggestions to increase participation focus on improving macroeconomic policies, liberalisation of domestic markets to allow the flow of foreign capital (Khamfula 2005). Other studies such as Singh (1999) focused on the financial development and infrastructure.

In addition to providing an understanding of the role of property rights in the development of and participation in stock markets, this thesis addresses the questions on the stagnant stock markets and the local participation that are generally neglected in literature.

8.4 Limitations

This thesis focuses largely on the quality of institutions that define and protect property rights and uses the indices prepared by different international organisations to measure their relative quality across countries. While the credibility of the sources and the nature of assessment are not necessarily an issue, the indices may not adequately capture specific property rights security concerns that are relevant to participation in SADC stock markets. Other studies have also noted the difficulties in measuring degrees of property rights protection.

In the absence of either benchmarks regarding the capacity of the economy to enhance stock market participation or the adequacy of participation the comparative analysis remain subjective. However, the approach in this thesis reduces potential bias by emphasising historical development factors.

Property rights are not static and impermeable, so it is possible that the contemporarily observed institutional outcomes have been significantly influenced by factors not considered here. Nonetheless, it is unlikely that the observed linkage between a country's colonial experience and their institutional outcomes are consequences of any omitted factors.

Generally, the availability of data restricted the empirical analysis in this thesis. In particular, the lack of data on individual investors limited the scope of the analysis. The lack of data regarding incorporation rates prevented analysis of the roles of corporations outside the stock markets, which may have been useful as an additional indicator of listable companies that would generate demand for equity capital.

This thesis argued that industrial development facilitates the demand for capital, which in turn facilitates participation in the stock market. However, although this argument is reasonable considering the fact that most of these countries are at an early stage of development, economic factors considered in this thesis including industrial development and the demand for capital have countercyclical effects. As such, the starting point and the flow of influence may be difficult to determine or establish. It is likely, particularly in developing economies, that key economic indicators such as the levels of industrial development, savings, and investment complement each other with regard to demand for capital and participation in the stock market.

8.5 Further research

Because this thesis focused largely on basic issues and due to the data limitations noted above, there remains considerable work to be done in this area.

The thesis used indices prepared by international organisations as proxies to assess the degrees of protection and concluded that property rights protections may not necessarily be of primary concern to the investors. However, with the exception of the Heritage Foundation index of property rights protection, other indices do not measure private property rights protection directly. Operationalising property rights protections is generally problematic. In an attempt to overcome this limitation, studies usually combine private property rights protection indices prepared by different international organisations (Claessens and Laeven 2003). However, this thesis has not been able to use more than one index to measure property rights protections directly simply because most of these countries are not covered by most international rating organisations. The need for further studies in this area is underscored by the seemingly varying views with regard to the extent to which the regimes in these countries protect private property rights. While the international rating organisation, Heritage Foundation, show low private property protections in most SADC countries (see Table 5.8), the South African company reports do not suggest property rights protection as a challenge. Rather, they highlight political instability in some countries, particularly those with dominant institutional conflicts. Therefore, a purposeful survey capturing specific issues that pertain to the private property rights protection is likely to provide a better understanding in this regard.

Chapter 4 identified a case of a corporation, Botswana Telecommunications Authority, which incorporates traditional values into its governance structures and management structures. It also highlighted evidence from the South African company reports suggesting that, in other African countries where they established business operations traditional values influence decision-making processes in corporations. However, the nature and extent to which traditional cultural values influence decisions in corporations and the implications remain relatively unexplored. Research that reveals how domestic and multinational corporations operating in these countries reflect traditional culture in their internal governance may provide a better understanding of the nature and effects of traditions in relation to developing businesses in the relevant countries.

The thesis found evidence of excess liquidity in the hands of institutional investors and excess demand for shares, but did not establish how the excess demand for shares is related to the excess liquidity in the hands of institutional investors. Nor does it examine roles of institutional investors with regard to the development of and participation in SADC stock markets. Enhancing our understanding in this regard is highly desirable to further policy developments regarding SADC equity markets.

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