

AN EVALUATION OF FACTORS CONTRIBUTING TO THE STOCK MARKET LIQUIDITY CONSTRAINTS OR COMPANIES LISTED ON THE NAMIBIAN STOCK EXCHANGE

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Abstract

In 1992, the Namibian Stock Exchange (NSX) was established, amongst others, to facilitate investment in capital markets. Stakeholders have raised concerns that liquidity is low on the NSX. The African Economic Outlook has pointed out that the NSX faces the challenge of few locally issued securities and low liquidity. On its part, the Ministry of Finance is of the view that the NSX is characterized by low levels of liquidity. The aim of this research was to evaluate factors contributing to the stock market liquidity constraints for companies listed on the NSX.

Key Words: Evaluation, Factors, Stock Exchange, Liquidity, Regulatory, Corporate Governance, Capital Markets

Introduction

Stock market liquidity is linked to savings mobilization, long-term capital investment, risk diversification, stock market development and economic growth (Ahmed, Shahbaz and Ali, 2008: 191; Antonios, 2010: 8; Omet, 2011: 4). Lack of liquidity is a serious impediment to the efficient functioning of stock markets and impacts stock prices adversely (Bokpin (2013: 2143). Liquidity is the ability to trade financial securities easily and at a low cost (Yartey, 2008: 16). The Namibian Stock Exchange (NSX) was established to facilitate investment in capital markets by creating and maintaining an effective, regulated environment to facilitate the way issuers of securities and investors transact safely and securely and thus contributing to the development of a supportive investment climate in Namibia (NSX, 2014: 1). Therefore, this study investigates factors contributing to the stock market liquidity constraints for companies listed on the NSX.

Research Aim

The aim of this research was to evaluate factors contributing to the stock market liquidity constraints for companies listed on the NSX. This study is qualitative, which employed interviews for collecting data from selected respondents of the population. Thematic analysis was employed to analyze data.

Research Objectives

The objectives of this research were:

- To determine factors contributing to stock market liquidity constraints for companies listed on the NSX;
- To evaluate the impact of illiquidity on the companies listed on the NSX; and
- To make recommendations for addressing factors contributing to stock market liquidity constraints for companies listed in the NSX.

LITERATURE REVIEW

It is important to provide the meaning and importance of the literature review before proceeding any further. Saunders, Lewis and Thornhill (2012: 71) postulate that reviewing the literature is necessary to demonstrate awareness of the current stage of knowledge in the subject area, its limitations and how research fits in the wider context. Saunders et al. (2012: 71) also point out that only the literature that is relevant to the research should be included in the review. Dawson (2010: 40) is of the view that doing background research helps a researcher to become more familiar with the topic under study.

Stock Market

This section provides the definition of a stock market, functions of a stock market, process of clearing and settlement as well as the overview of the NSX.

Definition of Stock Market

Shah (2008: 7) defines stock market or stock exchange as an organized and regulated financial market where securities (bonds, notes and shares) are bought and sold at prices governed by the forces of supply and demand. Macquigan, Kretlow and Moyer (2009: 32) differentiate capital markets into primary or secondary markets and believe that new securities are issued in the primary markets whereas outstanding securities are traded in the secondary markets.

It can be concluded from the above that there is an agreement from various authors as to the definition of a stock market. The authors agree that a stock market is a place where securities are bought and sold and this market is divided into primary and secondary markets.

Functions of Stock Market

Stock markets play a critical role in any economy. Shah (2008: 10) outlines the basic functions of stock markets as follows:

- Raising capital for businesses. The basic function of the stock market is to help existing and newly formed companies in raising capital for running and expanding their business by selling shares to the investing public;
- Mobilizing savings for investment. Stock markets play an important role of resources utilization by providing opportunities to the investors at each level and make them invest their savings rather than keep it in their savings in bank accounts; and
- Creating investment opportunities for small investors. Participation of small investors in investment activities is very important for economic growth of any country because the sum of the small investments hold a good percentage of total investment of a country.

Besides the above high order functions, there are other functions that stock markets carry out. The Johannesburg Stock Exchange has the following functions according to the Financial Markets Act 2012 (Government of the Republic of South Africa, 2013: 42):

- Provides an infrastructure for the trading of securities;
- Issues exchange rules and directives;
- Supervises compliance by its authorized users and issuers of securities with exchange rules and directives and reports any non-compliance to the registrar;
- Informs the registrar of any matter that may pose systemic risk to the financial markets; and
- Makes provision for the clearing and settlement of transactions in listed securities affected through the exchange.

The above shows that a stock market fulfills important functions. For example, without the existence of stock markets, it would be a challenge for new companies to expand on their businesses through selling shares to the public. The functions of a stock market mentioned above are similar to those of the NSX, which are mentioned in section 2.2.3 ahead.

Description of Stock Market Liquidity

There are many definitions of liquidity. Although they are numerous, the meanings of the definitions are similar. Omet (2011:4) says that liquidity is the ability to trade financial securities easily and at a low cost. Bokpin (2013: 2143) show that with liquid market, the initial investors do not lose access to their savings for the duration of the investment project because they can easily, quickly and cheaply, sell their stake in the company. In this regard, investors will then be able to reduce the downside risk and costs of investing in projects that do not pay off for a long time.

Fathi, Hosseini and Jalali (2012: 341); Cherif and Gazdar (2010: 147); Kanasco, Jalbani and Junejo (2009: 27); and Ogunmuyiwa (2010: 63) show that there are several indicators of liquidity. A decline in these indicators is an indication of low liquidity levels. It is also true to mention that an increase in these indicators is a sign of high levels of liquidity within a stock market. These indicators include value of trade ratio, turnover ratio and market size ratio:

- Value of trade ratio. It is equal to the total value of domestic equities as a percentage of Gross Domestic Product (GDP). This measures the market's trading activity relative to the size of the economy;
- Turnover ratio. This is the total value of shares divided by market capitalization. It measures market's overall trading activity relative to the size of the market; and
- Market size ratio. The indicator is equal to market capitalization as a percentage of GDP. It measures the size of the market relative to the size of the economy.

Mishra (2011: 21) outlines the following four aspects, properties and dimensions of liquidity:

- Trading time. The ability to execute a transaction immediately at the prevailing price. This is also called immediacy as it represents the speed at which buying or selling occurs in order to be executed;
- Tightness. The ability to buy and sell an asset at about the same price at the same time. It can also be referred as the cost of the transaction such as the bid-ask spread;
- Depth. The ability to buy or sell a certain amount of an asset without influence on the quoted price. It also represents the ability of the market to absorb large quantity of trade without having a large impact on price; and
- Resiliency. The ability to buy or to sell a certain amount of an asset with little influence on the quoted price. It can also be defined as the speed with which the prices bounce back to equilibrium following a large trade.

The NSX is an illiquid market as discussed in section 2.2.3.4 above. In that section, turnover ratio is shown as one of the indicators of liquidity. This ratio averaged 0.78 percent during 2005 – 2010 implying that NSX is illiquid compared to emerging and developed economies. Illiquidity at the NSX can be ascribed to a number of constraining factors. The following section discusses, in general, factors contributing to stock market liquidity constraints.

Factors Contributing to Stock Market Liquidity Constraints

The reviewed literature shows that several factors explain liquidity constraints in stock markets. These constraints are discussed in detail below.

Poor Corporate Governance Practices

Corporate governance encompasses processes for board effectiveness and enhanced transparent disclosures (Prasanna, 2011: 1). Tang and Wang (2008: 2) indicate that corporate governance aims at resolving conflict of interest between managers and shareholders and between large shareholders and minority shareholders, and thus mitigates agency costs. Loukil and Yousfi (2010: 3) assert that attributes of corporate governance include ownership structure (degree of ownership concentration; and owner groups such as family, state and foreign investor) and board characteristics (board size, functioning of sub-committees, and board independence). Other corporate governance variables include information disclosure practices and auditor

independence as fully explained in Farooq, Derrabi and Naciri (2013: 4). Pourali and Arasteh (2013: 943) observed that financial transparency and information disclosure are important factors of corporate governance.

The existing literature shows that there is a link between poor corporate governance and low stock market liquidity with respect to companies listed on a stock exchange. Loukil and Yousfi (2010: 3) are of the opinion that low stock market liquidity results when there is ownership concentration, ineffective board of directors, and when majority shareholding is a family or foreign investors. Prasanna (2011: 5) indicates that ownership concentration results in limited information made available to the investors in the capital markets.

In their research, Tang and Wang (2008: 2) found that poor corporate governance practices are usually associated with a low level of financial and operational transparency, and low quality of information disclosure, which implies great information asymmetry and low firm liquidity. Farooq et al. (2013: 1) argues that poor corporate governance mechanisms increase information asymmetries between insiders and outsiders. Outsiders, being liquidity providers, therefore do not trade in stocks for which they have no information.

The reviewed literature indicates that poor corporate governance leads to low liquidity in stock markets. For example, Loukil and Yousfi (2010: 3); Tang and Wang (2008: 2) and Farooq et al. (2013: 1) agree that the link exists. This implies that poor corporate governance is one of the factors that led to low liquidity levels for companies listed on the NSX. However, NSX requires each listed company to have adequate management implying that corporate governance is sound for companies listed at the NSX. Different ways that can be used to improve corporate governance and consequently liquidity are discussed in section 2.3.3.1 ahead.

Slow Privatization Progress

Privatization is a highly debated topic in developing countries. In these countries one finds a multitude of state-owned-enterprises (SOEs), many of which are poorly managed, returning paying nothing or limited dividends to state coffers. When SOEs are poorly managed it follows that they are unable to register profits let alone break-even. The situation leads to a point where government bails failing SOEs resulting in an increase in the budget deficit as government expenditure becomes greater than government revenue. Government debt also goes up because funds have to be borrowed either from domestic sources or from international debt markets to finance budget for the deficit.

Various authors have written on privatization and its impact on stock market development in general and stock market liquidity in particular. Naceur, Boubakri, and Ghazouani (2009: 3) define privatization as the sale of public assets and state-owned firms to the private sector, at the micro-level. There are two channels through which privatization impacts domestic stock market development. A direct effect comes from the choice of privatization method. In this regard, using share issue privatization will lead to more firms listed on the stock markets, thus increasing the size and market liquidity. An indirect effect stems from the privatization sustained efforts

observed over time. Sustained privatization efforts will signal to investors the government commitment to bear residual risk.

SOEs or parastatals in Namibia are found in such sectors such as banking, transport, finance, agriculture, telecommunication, media, tourism, energy and art. While some of them are well managed, others are not. Those that are not well managed are being bailed-out from government coffers resulting in an increased budget deficit. In addition, Namibia SOEs are not active on the NSX, which should also explain low levels of liquidity recorded at the exchange. Discussion in section 2.3.3.2 below shows how privatization can be used to spur liquidity in stock markets.

Smallness of Stock Markets

Moss and Thuotte (2013: 9) indicated that African stock markets are small and illiquid compared to other developing countries. For example, the total number of companies listed on African exchanges is small and ranges from 8 (Malawi) to 215 (Nigeria) with the median of 38 (Ghana). They are also of the view that African markets are also small in relation to Gross Domestic Product (GDP). While South Africa is on par with other developed countries with market capitalization equal to 100 percent of GDP, the market capitalization of Africa's small markets often hovers between 10 percent and 20 percent of GDP.

Tafirenyika (2012: 23) states that except for the JSE, the continent's biggest in terms of the number of listed companies and market value; African stock markets are still small and often dominated by a handful of large corporations. This situation is complemented by Allen, Othure and Senbet (2011: 83) who found that with the exception of the established markets in South Africa and Egypt, stock markets in Africa are thin and illiquid due to concentration. They argue that the challenge facing sub-Saharan Africa stock exchanges is concentration of trade in a few stocks and the dominance of a few firms on the stock exchanges. In this regard, market dominance is particularly evident in the regional market in Abidjan and the Ghana stock market where Ashanti Goldfields account for 90 percent of the total capitalization of the Ghana stock market, and five companies account for 75 percent of transactions in Abidjan.

Mugabe, Mokgethi, Matsika, Majola, Mwambazi and Banda (2011: 13) argue that stock markets in Malawi and Ghana are some of the illiquid markets on the continent. They indicate that Malawi Stock Exchange (MSE) saw turnover velocity worsening to 0.90 percent in 2010 compared to 1.33 percent recorded in 2009. With respect to Ghana, they said that the main index of the Ghana Stock Exchange (GSE) nose-dived by 11.33 percent in 2011 compared to 27.55 percent in 2010. They attribute the lackluster performance to limited companies listed on the stock exchanges. As an example, they assert that Tullow Oil and Anglo Gold Ashanti hold 59 percent and 27.7 percent of the entire market capitalization respectively on the GSE.

Lutwama (2006: 4) is of the view that liquidity in the Ugandan market is still very low compared with the emerging markets. For example, in 2004 turnover ratio was 0.16 percent while the same ratio was 61.82 percent and 7.29 percent in South Africa and Kenya respectively. According to the author, two reasons explain this situation. First, there is limited number of products such as

ordinary shares, government bonds and corporate bonds being traded. Second, there are only seven companies listed on the Ugandan Stock Exchange and the majority of the investors being institutional investors accounting for over 92 percent of the shareholding in the companies listed. This leaves a free float of only 8 percent implying that these are the only shares available for trading.

Marone (2003:12) says that several factors explain why liquidity is low from demand for stocks point of view on the Lusaka Stock Exchange (LUSE). *First*, single foreign investors tend to be majority shareholders in most if not all the listed and quoted companies in the exchange. *Second*, the low level of stock market participation, especially by domestic investors can be partially explained by the low rate of general savings in the economy. *Third*, high return on treasury bills is more attractive to invest compared to more risk stocks in Zambia. *Fourth*, is the poor performance of listed companies as these companies are unprofitable or because the return is too low to compensate for the risk of holding their shares? *Fifth*, there are few institutional investors, such as pension funds and mutual funds that generate long-term savings and channel them into stock exchange.

The situation in Namibia is not different from other African countries. Only about 33 firms are listed on the NSX and the majority of these are foreign firms. Securities traded are few including shares and bonds. It follows that the small size of the NSX has contributed to the problem of illiquidity on the domestic stock exchange. Discussion in section 2.3.3.5 ahead shows how smallness of a stock market can be addressed to promote liquidity.

Reliance on Manual Systems

Masetti (2013: 3) contends that sub-Saharan African stock markets, with the exception of South Africa, are characterized by manual and outdated trading, clearing and settlement systems, which can take months to complete a single transaction. Masetti (2013: 3) concludes that this lack of efficiency severely reduces the attractiveness of sub-Saharan African stock markets for equity investors.

Allen et al. (2011: 86) are of the view that reliance on manual systems constrain liquidity in sub-Saharan Africa stock exchanges. They claim that the manual systems used by most of the stock exchanges in Africa are impediments to operational efficiency and liquidity, as they pose bottlenecks in terms of slowing down trading and information production of the stock market.

Lutwama (2006: 4) is of the view that liquidity in the Ugandan market is being constrained by the existence of manual clearing and settlement system. In this regard, delivery and settlement at the Ugandan Stock Exchange (USE) is done on a T+3 and T+2 respectively bringing the total number of days of delivery and settlement to 5 days. The author says that this is a tedious system which involves a lot of paper work and takes a longer time for one's transaction to be settled. Further, the system is susceptible to a lot of errors and possible financial losses to the investor thereby reducing investor confidence in the market which adversely affects the liquidity levels.

The NSX is currently working on the introduction of the domestic central securities depository (CSD) (NSX, 2013: 3). This is expected to be a complete departure from the current practice where clearing and settlement of Namibian primary listed equity transactions are done in an outsourced solution. Improving stock market liquidity through automation is discussed in section 2.3.3.3 ahead.

High Transactions Costs and Restrictive Policies

It is claimed in the investment literature that high transactions costs affect stock market liquidity negatively. Bogdan, Baresa and Ivanovic (2012: 185) point out that the Croatian equity market is an illiquid emerging market as transaction costs are high. All investors are required to pay brokerage fees and order-processing costs in the process of trading stocks. Fortunately, these costs exclude taxes as there is no tax on capital gain on the Croatian stock market. The bid-ask spread of the stock is also high resulting in stock illiquidity. These factors led to investors being locked into holding of particular stock and inability to find other counterparty able to transact on agreed price and quantity.

Ghosh and Revilla (2007: 6) pointed out that a market with high transaction costs will see less trading and have fewer price movements in response to relevant news and will therefore be less liquid and less efficient. These transactions costs comprise both the explicit costs of trading – such as commission, settlement fees and taxes – and the implicit costs of trading, which represent the opportunity costs of delaying or not executing a trade.

There are several fees that are charged for being a listed entity on the NSX (NSX, 2013: 26). These fees include listing and documentation fees, annual fees, quarterly fees, and handling and service fees. Policies aimed at encouraging trading and consequently stock market liquidity are discussed in section 2.3.3.4 ahead.

Strategies to Resolve Liquidity Constraints

Several strategies that can be used to improve liquidity in stock markets do exist. This study has identified some from the reviewed literature. Details on these strategies to resolve liquidity constraints in stock markets are provided below.

Promoting Sound Corporate Governance

Bokpin (2013: 2150) says that corporate managers must adopt International Financial Reporting Standards (IFRS) in order to increase the level of information disclosure in a timely manner. Bokpin (2013: 2150) further indicates that the recent developments on the Ghana Stock Exchange (GSE) is such that firms must make information disclosure a top priority in order to take advantage of globalization since firms listed on the GSE are open to foreign investors who often shy away from stocks in developing countries due to the fact that they are informationally disadvantaged.

Chung, Kim, Park and Sung (2012: 689) found evidence that corporate governance is more effective in improving stock market liquidity in countries with better legal and regulatory environments for shareholder protection rights. Prasanna (2011: 8) adds that there is a formal governance regulation aimed at promoting and raising corporate governance in India. In terms of the Indian regulation, 50 percent of the directors in sample companies are independent with no association with the companies in which they are appointed as independent directors. Prasanna (2011: 8) also mentions that there is conscious split in the leadership of management and the board so that the latter exercises effective oversight on management, through sub-committees, and the former deals with day-to-day running of the organizations.

Christiansen and Koldertsova (2009: 5) indicate that some exchanges have been actively involved in increasing the awareness around the value of good corporate governance. For example, in 2008 the Warsaw Stock Exchange (WSE) decided to establish a group of educational partners from across the country to co-organize training sessions and other educational projects in order to increase awareness of good governance practices and the recently amended Code of Best Practice for WSE Listed Companies.

It can be mentioned that while the boards of directors of the 7 companies that are primary listed on the NSX have independent directors that constitute more than 50 percent of the directors, Nictus Holdings Limited has no independent directors (Stimulus, 2013: 1; Nictus Holdings Limited, 2014: 3; Oryx Properties Limited, 2014: 6; Namibia Breweries Limited, 2014: 10; Bidvest Namibia, 2014: 10; Bank Windhoek Holdings Limited, 2014: 6; FNB Namibia Holdings, 2014: 6; Namibia Asset Management, 2014: 16). In addition, all 8 primary listed companies on the NSX prepare financial statements in accordance with IFRS.

Encouraging Privatization

Allen, Otchere and Senbet (2011: 83) indicate that large scale privatization programs are one of the strategies to boost liquidity in stock exchanges. This is related to Bortolotti, Jong, Nicodano and Schindele (2007: 300) who show that a privatization policy must be in place to stimulate the participation of SOEs and consequently improve liquidity in stock markets.

In terms of impact in countries where privatization was implemented, Naceur, Boubakri and Ghazouani (2009: 14) are of the view that privatization offerings had a positive and significant impact on market liquidity in the Asian region compared to Africa, Latin America, and Middle East and North Africa (MENA) regions. This is because MENA and African countries started to privatize on a large scale recently while in Asian countries, privatization has started since the eighties, relatively earlier than in any other region in the sample, implying that the privatization effects on the stock markets have had the time to materialize. Allen et al. (2011: 83) give an example in Tanzania where the Ministry of Finance provided incentives for issuers in terms of reduced corporate tax from 30 percent to 25 percent for a period of three years in case where the issuer has issued at least 35 percent of the issued shares held by the public.

The above is important for Namibia where SOEs are not listed on the NSX. It is apparent from the foregoing that measures were introduced in different countries with the view to encourage privatization and consequently improving stock market liquidity. In this regard, results show that a policy must be in place to boost privatization efforts.

Automation

Yartey and Adjasi (2007: 18) are of the view that automation of the trading system usually precedes or is preceded by the adoption of a central depository system (CSD). Under the CSD system, there is total elimination of risks such as loss, mutilation and theft of certificates associated with holding and trading of paper-based securities of investors. CSD systems also reduce errors and delays associated with paper-based systems.

The above view is not different from that of Mlambo and Biekpe (2007: 6) who argue that stock markets can also improve liquidity by moving away from manual to order driven electronic trading systems. According to the authors, markets that have implemented electronic trading systems include Egypt, Nigeria and South Africa. Ghana and Namibia adopted the trading system of the JSE.

In conclusion, electronic systems are associated with improved stock market liquidity. One of the ways of automating trading systems is the introduction of a CSD. North Africa, West Africa and South Africa have fully implemented electronic trading systems. Stock market liquidity can be improved on the NSX through the implementation of a fully fledged Namibian CSD.

Attracting Capital Flows and Encouraging Foreign Participation

In an effort to encourage the participation of foreign companies and thereby promote stock market liquidity, the Chinese Government had to put in place a program called Qualified Foreign Institutional Investor (QFII). Ding, Nilsson, and Suardi (2013: 1) show that the QFII is a policy measure that allows stock market quota to foreign institutional investors. The system permits overseas institutional investors to buy domestically listed stocks in the A-share market. Prior to the QFII system, foreign investors could only invest in the B-share market. The QFII channel has a shareholding ceiling of 20 percent for all Qualified Foreign Institutional Investors (QFIIs) in any listed company in China's A-share market.

Yartey and Adjasi (2007: 25) stated that opening up to foreign participation with little or no ceilings on foreign ownership of shares can help to increase trading and liquidity of markets. This is related to Jefferis and Smith (2005: 57) who are of the view that barriers to entry should be eliminated to attract the participation of international investors into domestic economies as in Kenya and Zimbabwe. In terms of repatriation of capital, several policies have been put in place to attract foreign capital in selected countries (Mlambo and Biekpe, 2007: 7). The authors indicate that there are no foreign exchange controls with profits, dividends and capital repatriated freely in Botswana, Kenya, Mauritius, Uganda and Zambia. There are unrestricted capital, profits and dividends flows with Common Monetary Area (CMA) for non-residents with exchange controls applying to resident capital flows. CMA consists of Lesotho, Namibia, South Africa and Swaziland. In Tanzania, profits and dividends are freely repatriated with capital transfers still subject to approval.

Enhancing More Diversified Investor Participation

Alajekwu and Ezeabasili (2012: 16) say that the propensity to trade on stock market can further be improved on the Nigeria Stock Market through different ways including encouraging low cost transactions, boosting public confidence, and discouraging “buy and hold” strategy thereby enhancing investor participation. On their part, Ghosh and Revilla (2007: 21) pointed out that one of the key elements in enhancing investor participation is the development of the contractual savings industry – that is, the pensions and insurance industry. Pension schemes could make a greater contribution to capital markets if an asset liability framework was adopted. Much of the impact on capital markets from the insurance industry is likely to come from increased coverage and growing variety of products.

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology results from the literature review and provides a framework for analysis of data collected in the field. Several authors have established the importance of research methodology. Gill and Johnson (2010: 6) write that research methodology provides a range of approaches to management research that are used to find answers to particular research questions. Thomas (2010: 3010) is of the view that research methodology is a strategy of enquiry, which moves from the underlying assumptions to research design, and data collection. In addition, the author mention that research methodology refers to the way in which data are collected and analyzed, and the type of generalization and representation derived from the data. Gray, Williamson, Karp and Dalphin (2007: 3) have a similar view and indicate that research methodology explores the principles, procedures, and strategies of research.

Size of research project, time and, money resources, and how well the questions have been designed. The authors are of the view that for small projects such as student questionnaires, the minimum number for a pilot is 10 and with respect to large surveys between 100 and 200 responses should be considered.

Based on the above and given the sample size, pilot testing was adopted in this study. A trial run was conducted with a minimum of three experts. These participants included two industry practitioners and one academic. Only minor comments were received from 3 respondents that participated in the pilot phase. Comments received were used to revise interview questions. Key comments were that questions were too broad and needed to be specific. Some comments required some questions to be amended so that they read well.

3.2 Data Analysis

Once qualitative data has been collected, analysis is the next step. Welman et al. (2010: 211) give four steps in analyzing in-depth individual interviews. These steps are briefly defined below:

- Preparing field notes and transcripts. Field notes are detailed notes made by hand, tape recording, and observations, and are compiled during qualitative interviewing. These notes have to be processed by converting them into write-ups;
- Theme identification. Themes can be described as “umbrella” constructs which are usually identified by the researcher before, after, and during the data collection. Themes can also be identified by reviewing the original field notes through counting keywords in the field notes that may occur more frequently than others;
- Coding the data. The purpose of coding is to analyze and make sense of the data that have been collected by putting names to events, incidents, behaviors, attitudes, and so on. Codes are tags or labels that attach meaning to the raw data or notes collected during field work; and
- Displaying the data. This is a systematic, visual representation of information which enables the user to draw conclusions about qualitative material collected through interviews. Data display formats include matrices and networks.

Limitation of the Study

The study evaluated factors contributing to the stock market liquidity constraints for companies listed on the NSX. While there are a number of factors that can be associated with liquidity challenges at the domestic exchange, this study focused on selected factors such as corporate governance, privatization, size of stock market, manual systems, and transactions costs and restrictive policies. The above factors were chosen because they have a direct impact on stock market liquidity constraints in Namibia.

Other limitations relate to the target sample, research approach and research design. This study targeted only primary listed companies excluding dual listed companies as it was easier to approach the former and not the latter ones. Qualitative research approach was adopted due to the small sample and subjectivity of data involved. The study is based on descriptive research design based on interview research instrument as guideline questions allowed the interviewer to probe further depending on the responses.

RESULTS, DISCUSSION AND INTERPRETATION OF FINDINGS

Presentation and Discussion of the Findings

Personal Data and Response Rate

This section covers the response rate, gender of respondents, age of respondents and industry experience of respondents. These sub-sections are discussed below.

Response Rate

About 10 respondents were interviewed out of a sample of 13 resulting in a response rate of 77 percent. Exactly 100 percent response rate was recorded for brokers and the stock exchange respectively. Listed companies accounted for 62.25 percent in response rate. The low response rate for listed companies was as a result of 3 institutions that could not be reached even after repeated attempts.

Table 4.1 below shows how the response rate was calculated.

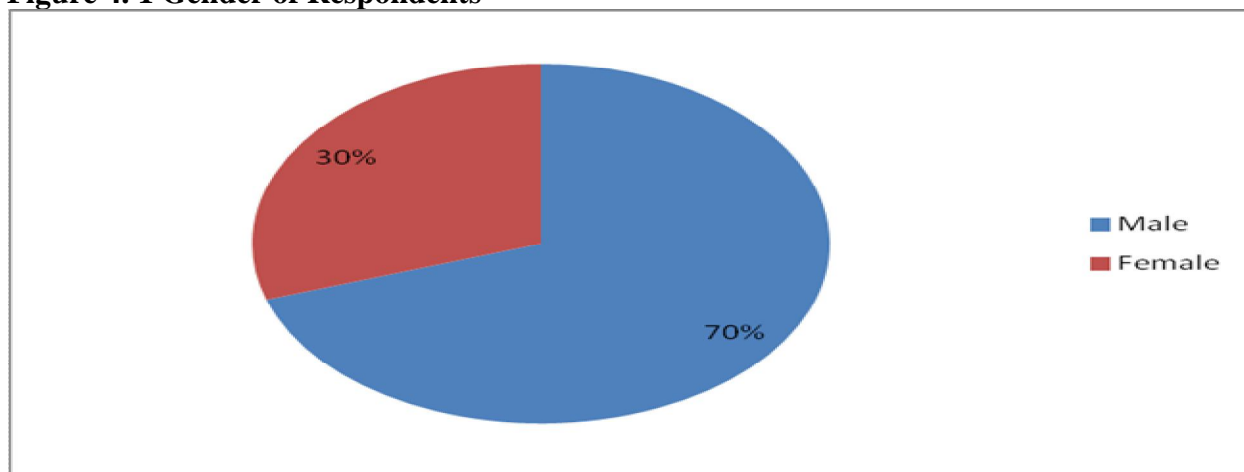
Table 4. 1 Response Rate

Institutional Type	Population	Sample	Interviewed	Response Rate [%]
Listed Companies	8	8	5	62.25
Brokers	4	4	4	100
Stock Exchange	1	1	1	100
Total	13	13	10	10/13*100=77%

Gender of Respondents

Respondents consisted of both males and females. Figure 4.1 shows that out of the 10 respondents, 70 percent were males and 30 percent were females.

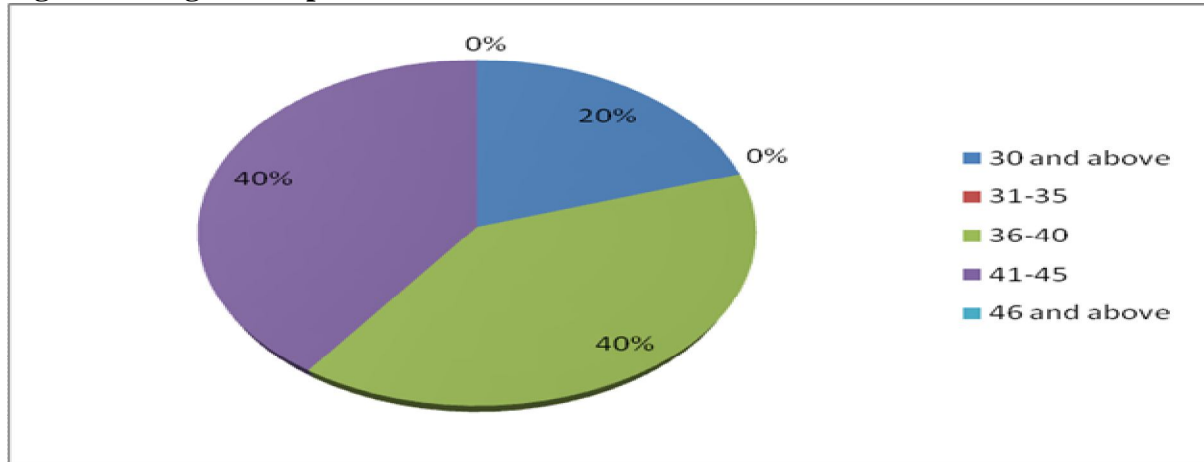
Figure 4. 1 Gender of Respondents



Age of Respondents

Five age groups were identified. These were 30 years and below, 31-35, 36-40, 41-45 and 46 and above. Figure 4.2 shows that 20 percent fell in the age 30 and below while 40 percent fell in 36-40 and 41-45 age groups respectively. There were no respondents in other age groups.

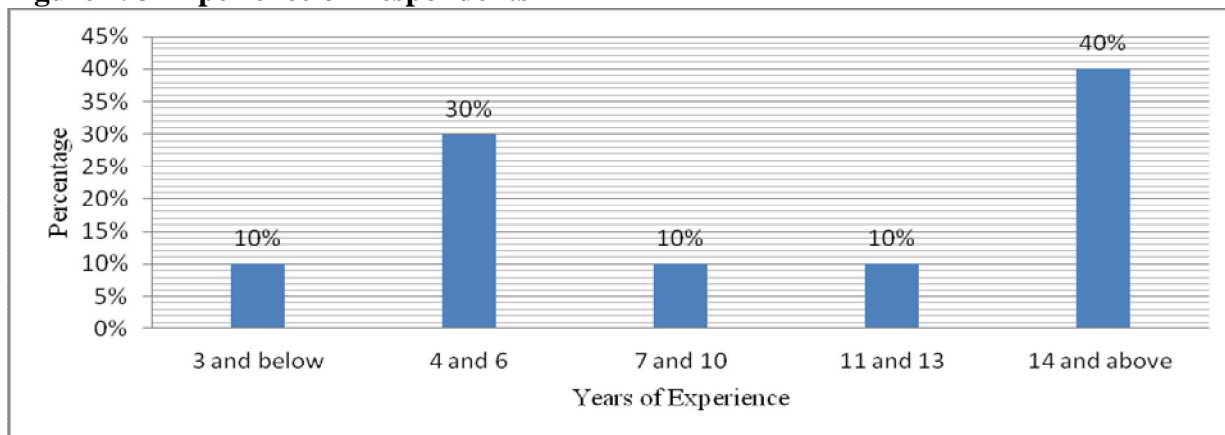
Figure 4. 2 Age of Respondents



Experience of Respondents

Five experience groups were identified. These are 3 years and below, 4-6, 7-10, 11-13 and 14 and above. Experience in this case refers to the number of years respondents spent while working in the stock market. The following figure shows that out of the total frequency of 10 respondents, 40 percent of respondents have 14 years of experience and above in terms industry experience with the next one being 30 percent of the respondents falling within 4-6 years industry experience. Those with 3 and below, 7 and 10, and 11 and 13 constitute 10 percent of the total frequency respectively.

Figure 4. 3 Experience of Respondents



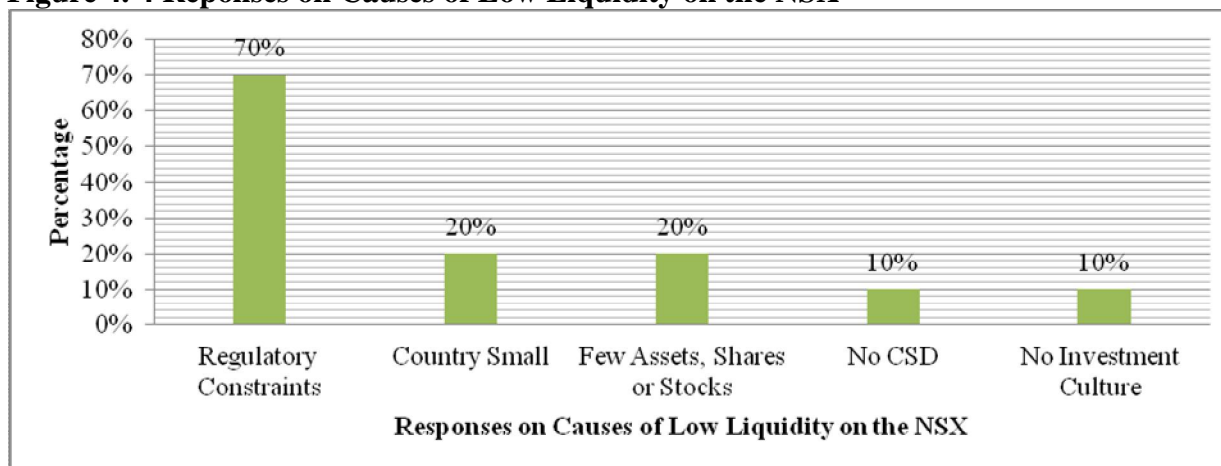
Findings on the Factors Contributing to the Stock Market Liquidity Constraints for Companies Listed on the NSX

Causes of Low Liquidity on the NSX

This section discusses findings on the causes of low liquidity on the NSX. The key causes of low liquidity that emanated from the interviews are regulatory constraints, smallness of the country,

few assets, absence of a centralized securities depository (CSD) and weak investment culture on the side of individual investors. Responses on these key causes of low liquidity on the NSX are shown in the following Figure (4.4).

Figure 4. 4 Responses on Causes of Low Liquidity on the NSX



The above Figure shows that 70 percent of the respondents mentioned regulatory constraints as a key cause of low liquidity on the NSX. According to the Government Gazette of the Republic of Namibia (2013: 12) about 35 percent of the assets of the pension funds should be invested in domestic assets with investment in unlisted investments in Namibia being between 1.75 percent and 3.5 percent. Investment in dually listed companies should fall from 30 percent from 1 January 2014 to 10 percent from 1 January 2018. Namibia Financial Institutions Supervisory Authority (2014: 10) shows that pension funds have about NAD105 billion in assets as at 31 December 2014 resulting in about NAD37 billion that needs to be invested locally. The local asset requirement according to the respondents has resulted in this large cash pool chasing few investment opportunities.

Another aspect that is related to regulatory constraints is the absence of incentives to invest on the NSX. One incentive mentioned during the interviews is the possibility of a reduction in corporate tax from the current level. Respondents are of the view that a fall in corporate tax as an incentive to list can encourage domestic companies including family owned companies, which are a majority in Namibia, to list on the NSX.

Other causes of low liquidity on the NSX, according to the findings, are outlined below:

- Namibia is a small country. About 20 percent of the respondents said that Namibia being a small country in terms of total economic activities and population perspectives, and this also explains the low liquidity on the NSX. Respondents were of the view that when the economy and population are small, the purchasing power becomes weak consequently leading to few potential shareholders and the number of deals or transactions processed. This is supported by Marone (2003: 12) who argues that few investors lead to low liquidity on a stock exchange;

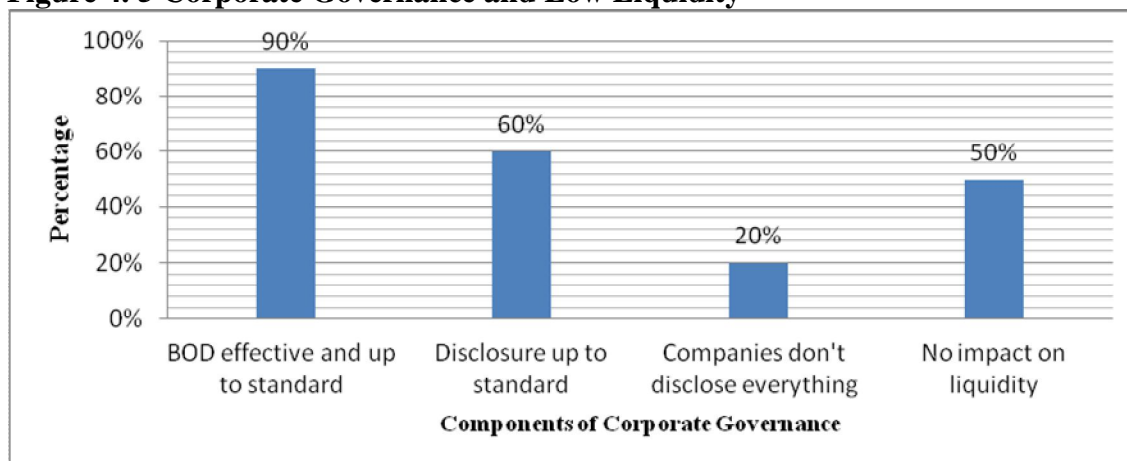
- Few assets, shares or stocks. About 20 percent of respondents said that there are few stocks on the NSX hence low liquidity levels in line with Lutwama (2006: 4). Few stocks are a result of few listed companies and the buy and hold strategy being practiced by institutional investors in listed companies;
- Absence of a Centralized Securities Depository. About 10 percent of the respondents were of the view that absence of a CSD has lead to low liquidity on the NSX and this is in agreement with Allen et al. (2011: 86) who show that manual systems constrain liquidity. As a result, investors, especially foreign investors, do not have confidence in the market, that implies that stocks are being issued in paper and not electronic form; and
- No investment culture. About 10 percent of respondents said that low liquidity on the NSX is also ascribed to limited investment culture on the part of individual investors. Their view is that investors on the NSX are mostly institutional ones that buy and hold onto the shares in line with Bogdan (2012: 185) who illustrates that ‘buy and hold’ has a negative impact on liquidity.

The above shows that low liquidity on the NSX is due to the regulatory constraints such as absence of incentives to list; smallness of the country in terms of economic activities and population size; few listed stocks; absence of a CSD; and a limited investment culture. Regulation 28 cannot be associated with low liquidity as it only created a large pool of cash in an environment characterized by limited investment opportunities such as few listed stocks or shares.

Corporate Governance and Low Liquidity

This section discusses findings on the impact of corporate governance on low liquidity on the NSX. The key determinants of corporate governance that are discussed are the degree of effectiveness of board of directors and the quality of information disclosure. Responses on these key components of corporate governance are shown in the following Figure (4.5).

Figure 4. 5 Corporate Governance and Low Liquidity



The following are the key findings on the impact of corporate governance on low liquidity on the NSX:

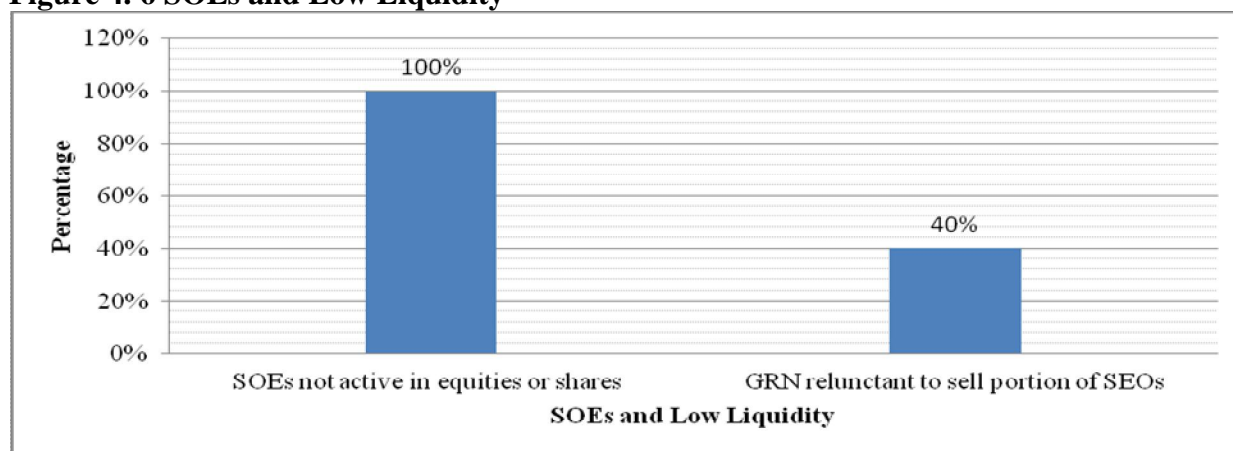
- About 50 percent of the respondents were of the view that corporate governance has no role that it plays with respect to low liquidity on the NSX. They claimed that low liquidity is explained by other factors that include limited stocks as discussed in this chapter. Respondents said that it is the responsibility of management and not the Boards of Directors (BOD) to run institutions on the day-to-day basis. They also revealed that the industry implemented Corporate Governance Code for Namibia (NamCode) to promote corporate governance. NamCode was launched on 9 July 2014 and is in the process to be adopted by main entities in Namibia outside of listed companies that are compelled to adopt the NamCode principles (NSX, 2014: 3);
- BOD are effective and up to standard. This was confirmed by 90 percent of the respondents. Prasanna (2011: 8) shows that effective BOD's are those that have sub-committees and where 50 percent of directors are independent. About 50 percent of the BOD listed companies on the NSX are independent and the companies have sub-committees;
- Disclosure of information is up to standard and in line with Bokpin (2013: 2150) who supposed that investors are attracted to markets where information disclosure is a top priority. This was said by 60 percent of the respondents. They said that disclosure of information in the interim and annual reports is a requirement for listed companies as inability to do so can lead to a company being de-listed from the NSX. It was revealed that disclosure of information with respect to listed companies is "second to none"; and
- Companies do not disclose everything, a situation not in line with Tang and Wang (2008: 2) who link low liquidity to low levels of financial and operational transparency. About 20 percent of the respondents mentioned this scenario. Respondents indicated that the information that is not disclosed includes investment strategies, executive salaries, destination of invested funds, and development plans. They said that this is because of the smallness of the economy as such information is disclosed in advanced economies.

It can be concluded that corporate governance played no role on low liquidity on the NSX. Low liquidity is explained by other factors as discussed in this chapter. Listed companies regularly publish information and they have effective BOD. However, in the interest of more transparency and accountability executive salaries should be published, at least at an aggregated level, in financial statements of listed companies.

State Owned Enterprises and Low Liquidity

This section discusses findings on the impact of State Owned Enterprises (SOEs) on low liquidity on the NSX. Key discussion points are the extent by which SOEs are active on the NSX and reluctance by the Government of the Republic of Namibia (GRN) to sell a portion of SOEs to investors. Responses on these key components of SOEs are shown in the following Figure (4.6).

Figure 4. 6 SOEs and Low Liquidity



Key findings on the impact of SOEs and low liquidity on the NSX are the following:

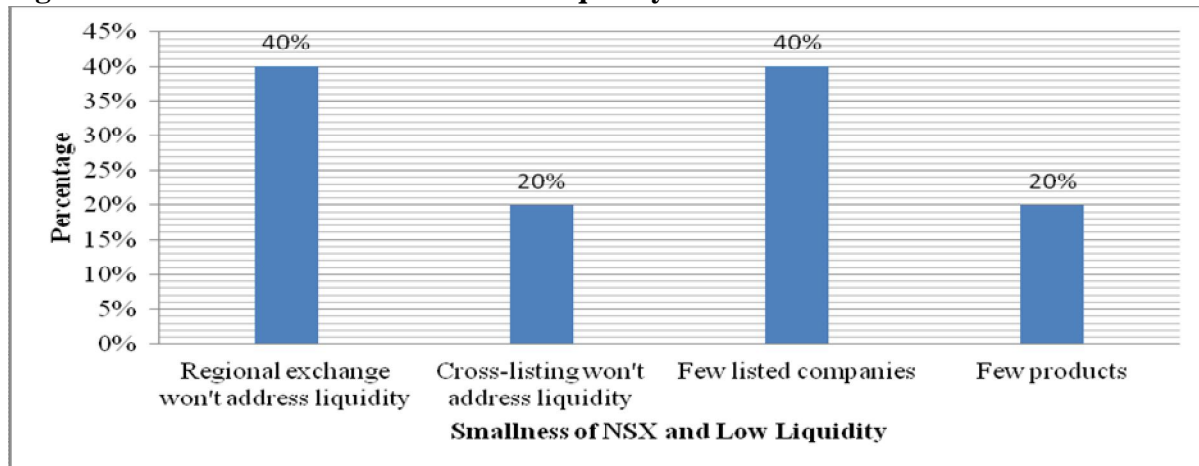
- All respondents confirmed that SOEs are not active in equities and to this Naceur et al. (2009: 14) contend that share issue privatization lead to more listing and increased liquidity. However SOEs are active in bonds. A daily report from the NSX dated 12 June 2015 shows four SOEs that have listed bonds totaling NAD1,5 billion (NSX, 2015: 1). Respondents were of the view that SOEs can bring more activities if they enter equities or shares; and
- About 40 percent of respondents indicated that the Government of the Republic of Namibia (GRN) is reluctant to sell portions of SOEs. This should not be the case as Naceur et al. (2009: 14) counters that privatization leads to stock market liquidity. Respondents associate this status quo to a lack of understanding on the part of GRN on how the stock market works.

It can be concluded from the above that SOEs are not active in equities thus contributing to low liquidity on the NSX. Lack of participation by the SOEs on the NSX can also be explained by reluctance of GRN to sell portions of SOEs to investors.

Smallness of the NSX and Low Liquidity

The current section looks at the relationship between the smallness of the NSX and low liquidity being experienced. Findings around regional exchange, cross-listing, number of listed companies and products are discussed. Responses on these key elements of smallness of the NSX are shown in the following Figure 4.7.

Figure 4. 7 Smallness of NSX and Low Liquidity



Findings on the smallness of the NSX and low liquidity are outlined below:

- Regional exchange. About 40 percent of the respondents argued that establishment of a regional exchange won't address low liquidity on the NSX contrary to the findings by Odera (2012: 21). Respondents felt that creating a regional exchange is farfetched now given instability in some countries and that doing so would require putting in place regulations. Further, they argued that coming up with a regional exchange means that in-country exchanges will not exist consequently dampening liquidity locally;
- Cross-listing of stocks. About 20 percent of respondents were of the view that cross-listing of stocks will not solve low liquidity challenges on the NSX contrary to the findings by Epke (2010: 16). They argued that Namibia has cross-listings already and this status quo has not solved low liquidity challenges in the past;
- Few listed companies. About 40 percent of the respondents said that the NSX is small because of few listed companies in line with Moss and Thuotte (2013: 9). For example, there are only 8 primary listed companies on the stock exchange which leads to low market capitalization, turnover and liquidity; and
- Few products. About 20 percent of the respondents were of the conviction that the NSX is small because of few products in line with Lutwama (2006: 4). They indicated that the small size limits choice as there are few products such as shares and bonds to choose from.

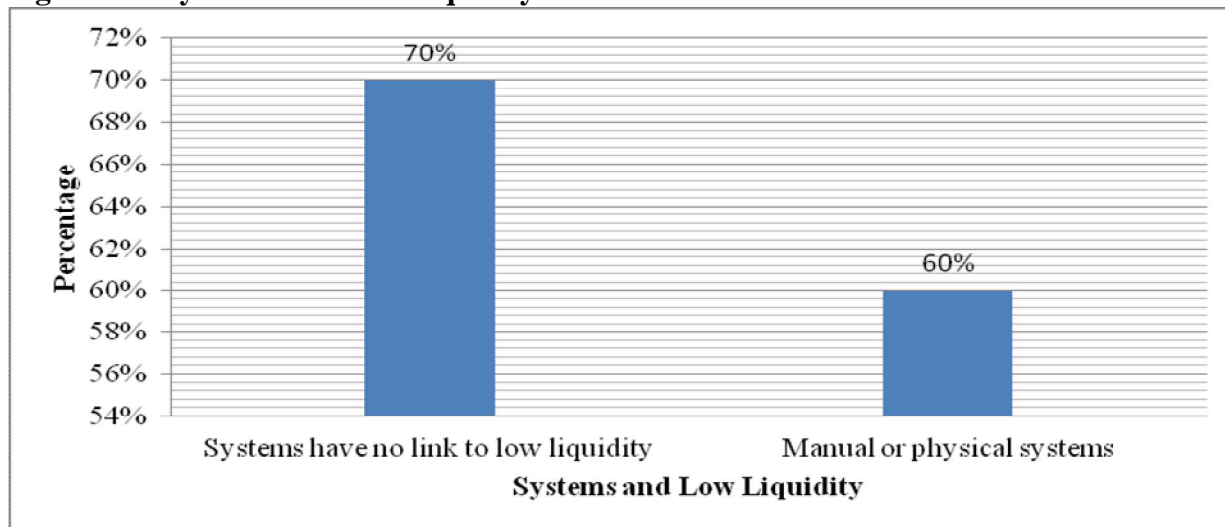
The above shows that the NSX is small and illiquid due to few listed companies and products. Primary listed companies are only 8 and products available are shares and bonds. In addition, the findings show that regional exchange and cross-listing of stock are not useful avenues to address low liquidity challenges on the NSX.

Systems and Low Liquidity

This section covers the link between trading, clearing and settlement systems and low liquidity. The objective is to understand if there is a link between systems and low liquidity and to

establish to what extent the systems are electronic or manual. Responses on these key elements of trading, clearing and settlement systems are shown in the following Figure (4.8).

Figure 4. 8 Systems and Low Liquidity



The following are the key findings on the relationship between trading, clearing and settlement system, and low liquidity on the NSX:

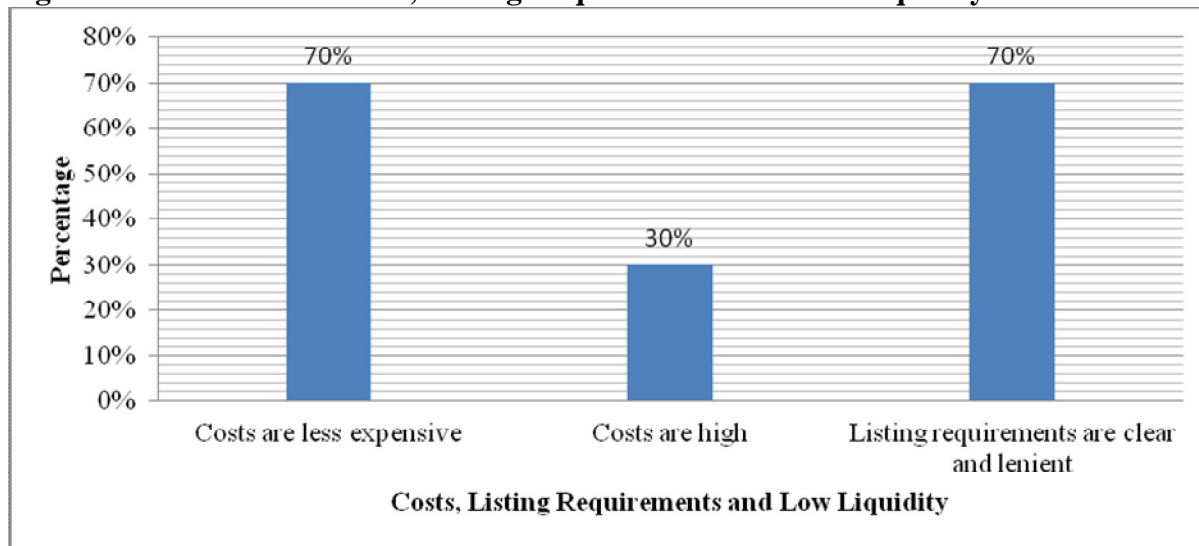
- About 70 percent of the respondents were of the view that there is no direct link between the current systems and low liquidity on the NSX, which is not in line with Allen et al (2011: 86) who said that manual systems constrain liquidity. Respondents said that other factors such as few listed firms and limited products, among others, are hugely responsible for low liquidity and not the current systems; and
- About 60 percent of the respondents indicated that the industry is still manual or physical in certain respects and there is a need to move to electronic settlement platform. This is supported by Allen et al (2011: 86) who believes that manual systems constrain liquidity and by implication electronic systems lead to improvement in liquidity. It should be noted that this relates to primary securities and not dually listed securities for which settlement is electronic via the JSE systems where there is a drive to move from T+5 to T+3. Trading and clearing for primary securities are electronic and done via the JSE systems as well. The settlement part is manual and within the current rule of T+5. The implementation of the Namibia Centralized Securities Depository (NCSD) is being driven by Bank of Namibia and NSX is expected to shorten the settlement to T+3 and attract international investors thereby enhancing liquidity for primary listed securities. Implementation of the NCSD is at an early stage at present.

It can be concluded from the above that although the current systems appear not to explain low liquidity on the NSX, the implementation of NCSD is likely to shorten the settlement cycle and enhance liquidity as international investors will be attracted to invest in Namibia.

Transaction Costs, Listing Requirements and Low Liquidity

This section covers transaction costs, listing requirements and low liquidity on the NSX. The specific issues addressed include establishing whether transaction costs are less expensive or low and if listing requirements are onerous or less onerous. Responses on costs, listing requirements and low liquidity are displayed in the Figure 4.9 that follows.

Figure 4. 9 Transaction Costs, Listing Requirements and Low Liquidity



Key findings on costs, listing requirements and low liquidity are outlined below:

- About 70 percent of respondents indicated that trading or transactions costs are low compared to other countries implying that transactions costs played no role in explaining low liquidity for companies listed on the NSX. Respondents said that in Namibia the costs are 0.5 percent on average compared to Zimbabwe, South Africa and United Kingdom (London) where the costs are 4 percent, 2.5 percent and 0.01 percent respectively. They further indicated that costs are fixed and regulated in Namibia compared to South Africa where costs are negotiable and competitive. The implication of costs being fixed and regulated, according to the respondents, is that market players are unable to charge what they want. In addition, respondents said costs have no connection to low liquidity on the NSX at present because they are still less expensive;
- About 30 percent of the respondents indicated that costs are high compared to other countries in line with Bogdan (2012: 185) who said that high transactions costs lead to low liquidity levels. This is true when Namibia is compared to South Africa and United Kingdom as indicated above where stock markets are relatively more developed. Respondents said that high costs are a reflection of the rest of the economy and some companies might be avoiding listing as a result of high costs; and
- With respect to listing requirements, 70 percent of respondents said that the requirements to list are clear, straight forward and lenient and have no relationship to low liquidity on the NSX. Jefferis and Smith (2005: 65) indicate that less restrictive listing requirements

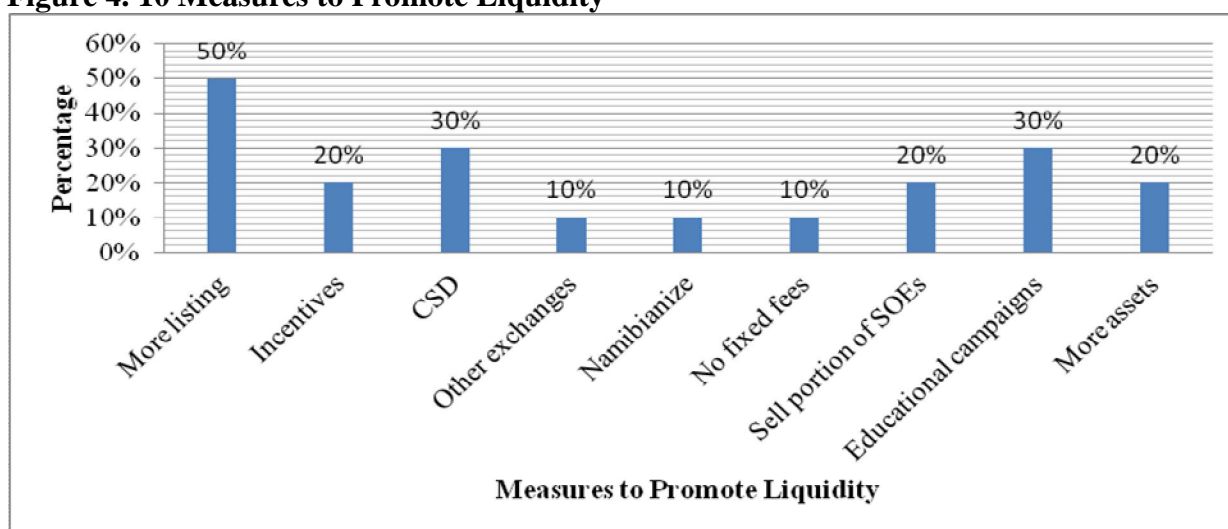
encourages listing implying that listing requirements played no role in explaining low liquidity for companies listed on the NSX.

It can be concluded from the above that there are no issues with respect to the level of costs and listing requirements. Trading costs are still less expensive and listing requirements are less burdensome. The only issue that the market has a problem with is that costs are fixed and regulated compared to South Africa where costs are negotiable and competitive.

Measures to Promote Liquidity on the NSX

This section covers measures aimed at promoting liquidity on the NSX. Nine measures were identified and these include more listing, introduction of incentives, implementation of a Central Securities Depository (CSD), introducing other exchanges, Namibianizing the economy, doing away with fixed fees, selling-out a portion of SOEs, educational campaigns and more assets. Responses on these measures appear in the following Figure 4.10.

Figure 4. 10 Measures to Promote Liquidity



Findings on each measure are outlined below:

- Encourage more companies to list on the NSX. This was mentioned by 50 percent of the respondents and supported by Naceur et al (2009: 14). They indicated that there are benefits for listing and these include shares being better than loans; listing boosts credit rating; listing enables companies to be open to investors; and consequently listing leads to more trading and liquidity;
- Implementation of a CSD. About 30 percent of the respondents said that implementing a CSD minimizes delays in settlement as settlement for primary listed securities becomes electronic and in the process promotes more liquidity through attracting foreign investors. Implementation of a CSD is supported by Allen et al. (2011: 86). Foreign or international investors have confidence in markets where there is a CSD according to the respondents.

The Namibian financial sector has resolved to implement a national CSD that is being driven by Bank of Namibia and NSX;

- Embark on educational campaigns. According to 30 percent of the respondents there is a need to have more educational campaigns to sensitize the public including men and women in the street on how to create wealth by investing in shares of listed companies. Such an undertaking should be a joint effort involving the listed companies, stockbrokers, regulators, educational institutions, and the NSX. A need for awareness about stock markets is supported by Christiansen and Koldertsova (2009: 5);
- Introduce incentives. In this regard, 20 percent of the respondents said that an incentive such as lowering corporate tax from the current rate can encourage companies to list in line with the view by Allen et al (2011: 83). Respondents cautioned that companies should not just be attracted by an incentive but by the benefits of listing as elucidated above;
- Sell portions of SOEs. About 20 percent of the respondents indicated that Government should partly sell-out a portion of SOEs to raise capital and also promote liquidity on the NSX. This is supported by Naceur et al (2009: 14). Respondents indicated that profit seeking SOEs with good balance sheet should be identified first after which Government can give a go ahead. These SOEs would then be able to list on the NSX for new capital raising purposes;
- Introduce more assets. This was the view of about 20 percent of the respondents who said that there is a need to introduce more assets such as derivatives from the current status quo where only shares and bonds are being traded with a view to boost more activities on the NSX. This will also lead to a situation where there are more products to choose from in line with Lutwama (2006: 14);
- Introduce other exchanges. One respondent mentioned this and said that other exchanges such as a derivatives exchange can be introduced where more assets can be introduced in line with Lutwama (2006: 14). This is a similar to a set-up in South Africa where there is South African Features Exchange (SAFEX) for derivatives;
- Namibianize the economy. This refers to the establishment of good Namibian companies or to ensure that Namibians invest more in foreign companies and encourage these Namibian companies to list on the NSX. The current situation is such that the majority of companies in Namibia are foreign owned. It should be pointed out that foreign investors need to be allowed in the local economy as well to bring in foreign capital as elucidated by Ding et al. (2013: 1); and
- Do away with fixing and regulating transaction or trading fees or costs in line with Jefferis and Smith (2005: 65) who are of the view that less restrictive policies can improve liquidity. The current situation is such that trading fees are fixed, within a relevant range of 0.35 percent to 1 percent, and regulated implying that market participants do not charge what they want with the view to remain profitable as going concerns. This should be done away with so that fees become negotiable and competitive as in comparable economies like South Africa. Namibia is based on the mixed economic principles and fees should be driven by forces of demand and supply.

CONCLUSIONS AND RECOMMENDATIONS

Presentation of Findings

Findings from the Literature Review

The literature review as presented in chapter two contains key findings on factors constraining liquidity for companies listed on the NSX. In particular, the literature review shows how factors such as corporate governance; state owned enterprises; smallness of stock market; systems; transaction costs; and listing requirements contributed to illiquidity on the NSX. These findings are summarized below.

Corporate Governance and Low Stock Market Liquidity

Corporate governance in the form of ineffective boards of directors and low quality of information disclosure leads to low stock market liquidity. This can be addressed by ensuring that 50 percent of directors are independent and by placing information disclosure a top priority through adopting International Financial Reporting Standards (IFRS) (Loukil and Yousfi, 2010: 3; Prasanna, 2011: 8).

Privatization and Low Stock Market Liquidity

Privatization leads to more firms listed on the stock markets and thus increasing the size and market liquidity. State-owned-enterprises (SOEs) in Namibia are not active on the NSX, which also explains low levels of liquidity recorded at the exchange at present. Large scale privatization programs and reduction of corporate tax for companies that would like to list can boost liquidity in stock exchanges (Naceur et al. 2009: 3; Allen et al. 2011: 83).

Smallness of Stock Markets and Low Stock Market Liquidity

African stock markets, with the exception of JSE, are small and illiquid compared to other developing countries due to such factors as few stocks and few listed firms. Strategies to address smallness of stock markets are cross-listing of stocks; establishment of a regional exchange; attracting capital flows and encouraging foreign participation; and enhancing more diversified investor participation (Moss and Thuotte, 2013: 9; Odera, 2012: 21; Ding et al. 2013: 1; Ekpe, 2010: 16; Alajekwu and Ezeabasili, 2012: 16).

Systems and Low Stock Market Liquidity

Manual and outdated trading, clearing and settlement systems are impediments to operational efficiency and liquidity as they slow down trading, settlement and information production. Implementation of electronic systems such as centralized securities depository (CSD) is associated with improved stock market liquidity (Allen et al. 2011: 86; Lutwama, 2006: 4); and

Costs, Policies and Low Stock Market Liquidity

High transaction costs and restrictive policies lead to less trading and reduction of liquidity. Introduction of less restrictive policies including making listing requirements less onerous can promote liquidity of stock markets (Bogdan et al. 2012: 185; Jefferis and Smith, 2005: 65).

Presentation of Findings from Primary Study

The primary study based on interviews found several factors that contributed to low liquidity on the NSX. Main findings from the primary study are outlined below:

5.1.1.1 Regulatory Constraints and Low Stock Market Liquidity

- 70 percent of the respondents indicated that regulatory constraints cause low liquidity on the NSX. Regulation 28 and 29 created a large pool of cash, finding not enough investment opportunities, as pension funds should invest 35 percent of assets in Namibia.
- Another aspect is the absence of incentives to invest on the NSX. About 20 percent of respondents said incentives such as lowering corporate tax from the current level can encourage companies to list on the NX.

Smallness of NSX and Low Stock Market Liquidity

- 40 percent of the respondents argued that the establishment of a regional exchange won't address low liquidity on the NSX as that will do away with in-country exchanges and regulations will need to be put in place first. Related to this is the fact that 20 percent of the respondents who said cross-listing of stocks will not solve low liquidity challenges on the NSX as Namibia has cross-listings already.
- Other aspects of smallness of NSX relate to few listed companies and few products confirmed by 40 percent and 20 percent of respondents respectively. About 50 percent of the respondents said that companies should be encouraged to list; 10 percent of respondents advised that other exchanges should be introduced; and 20 percent of the respondents indicated that there is a need to introduce more assets to address smallness, buy and hold strategy, and low liquidity prevalent at the NSX.

Investment Culture and Low Stock Market Liquidity

- 10 percent of respondents say that low liquidity on the NSX is also ascribed to limited investment culture on the part of individual investors. This can be addressed by the view of 30 percent of the respondents who that there is a need to have more educational campaigns to sensitize the public including men and women in the street on how to create wealth by investing in shares of listed companies.

Corporate Governance and Low Stock Market Liquidity

- With respect to corporate governance, 90 percent of the respondents feel that boards of directors (BOD) are effective and 60 percent of respondents said that disclosure of information in the interim and annual reports is up to standard and “second to none”.
- However, 20 percent of the respondents argued that not all information is disclosed such as executive salaries and investment strategies due to smallness of the economy as such information is disclosed in advanced economies.

Privatization and Low Stock Market Liquidity

- 40 percent of respondents indicated that the Government of the Republic of Namibia (GRN) is reluctant to sell a portion of SOEs.
- About 20 percent of the respondents are of the view that GRN should partly sell-out a portion of SOEs to raise capital and also promote liquidity on the NSX.

Costs, Listing Requirements and Low Stock Market Liquidity

- 70 percent of respondents indicated that trading or transactions costs are low compared to other countries. This was contradicted by 30 percent of the respondents who mentioned that costs are high compared to other countries. However, what came to light is that it is not the level of costs that matter most but the issue is that costs in Namibia are fixed and regulated compared to South Africa where they are negotiable and competitive.
- In terms of listing requirements, 70 percent of respondents said that these are clear, straight forward and lenient and have no relationship to low liquidity on the NSX;

Systems and Low Stock Market Liquidity

- 60 percent of the respondents indicated that the industry is still manual or physical in certain respects and there is a need to move to electronic settlement platform.
- In their view, 30 percent of the respondents said that implementing a CSD minimizes delays in settlement as settlement for primary listed securities becomes electronic and in the process promotes more liquidity through attracting foreign investors; and

Namibianizing the Economy and Low Stock Market Liquidity

- 10 percent of the respondents touched on the need to namibianize the economy so that good Namibian companies can be established or to ensure that Namibians invest more in foreign companies and encourage these Namibian companies to list on the NSX. The current situation is such that the majority of companies in Namibia are foreign owned.

Conclusions on Findings

It can be concluded from the findings that while some factors contributed to low liquidity on the NSX, others did not. For example, the findings show that regulatory constraints; few stocks; few listed companies; lack of investment culture by individuals; absence of a CSD; inactivity of SOEs in equities; and fixed and regulated costs have contributed to low liquidity on the NSX. Corporate governance aspects such as BOD and disclosure of information played no role in explaining low liquidity on the NSX.

Recommendations

Based on the findings, it is therefore recommended that:

Review of Regulations 28 and 29

- Regulations 28 and 29 should be reviewed because these two regulations have created a large cash pool in an environment where there are limited investment opportunities. Namibia Financial Supervisory Authority (NAMFISA), Ministry of Finance and industry stakeholders should be involved in this review.

Listing on the NSX

- More companies should be encouraged to list on the NSX as presently there are only few primary listed companies. Listing will lead to more products to choose from. Companies can be encouraged to list through a reduction in corporate tax rate from the current level for companies that would like to list and embarking on road shows aimed at explaining the benefits of listing to companies.

Educational Campaigns

- Educational campaigns targeting the general public should be vigorously embarked upon alongside the Financial Literacy Initiative being driven by the Ministry of Finance and other stakeholders. The general public should be informed on the benefits of investing in shares of listed companies.

Selling portion of some SOEs

- There is a need for GRN to sell a portion of some SOEs so that these can list and raise new capital via the NSX. Doing so will reduce GRN's financial allocation to SOEs during each financial year.

Costs to be determined by the Market

- There is a need for transaction or trading costs to be determined by the market as is the case in South Africa as the practice of fixing and regulating them is not in line with our mixed economic principles.

Introduction of a CSD

- The industry should introduce a CSD so that settlement of primary listed securities becomes electronic, settlement cycle becomes lower than the current T+5, and international investors develop confidence in the financial sector.

Namibianizing the Economy

- GRN should seriously look into Namibianizing the economy as presently the majority of companies in Namibia are foreign owned. Consequently, good Namibian companies can list on the NSX to raise new capital and boost liquidity.

Areas for Further Research

There are other areas that can be explored to further understand low liquidity on the NSX. First, different research instruments can be employed to understand factors contributing to low liquidity for companies listed on the NSX. Second, a different sample targeting dually listed companies can be used to evaluate factors contributing to low liquidity for companies listed on the NSX. Third, a study to understand the extent to which a CSD, once implemented, can contribute to liquid for companies listed on the NSX can be undertaken.

Conclusion

It can therefore be concluded from this study that liquidity constraints for companies listed on the NSX are due to few listed companies; few stocks available; manual systems; fixing and regulating transactions costs; limited SOEs participation; limited awareness by the general public; and regulatory issues. Recommendations provided in section 5.3 can assist in realizing more liquidity on the NSX, if implemented.

Implications of the Study

The implications of the study can be understood from different perspectives. This study will enable the public including institutions and individuals to understand different factors that impact stock exchange operations thus have contributed to low liquidity constraints for companies listed on the NSX. The policy makers will benefit from the study through implementing recommendations as suggested in this study so that liquidity can be promoted on the NSX. It is expected that the writer of this dissertation will play a significant contribution in the stock

market in the long-run owing to the knowledge and skills obtained in the process of completing this work.

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