

Assessment of an Emerging Stock Market: The Case for Fiji's Stock Market

Rajni Mala

*School of Accounting and Finance
Faculty of Business and Economics
University of the South Pacific, Suva, Fiji Islands
Email. mala_r@usp.ac.fj
Tel. 679 3232181*

Michael White

*School of Accounting and Finance
Faculty of Business and Economics
University of the South Pacific, Suva, Fiji Islands
Email.white_m@usp.ac.fj
Tel:679 3232543*

Abstract

Stock market is seen as a very significant component of the financial sector of any economy. It is also seen as playing a vital role in the mobilization of capital in many of the emerging economies. Consequently, this paper focuses on Fiji's stock market i.e. the South Pacific Stock Exchange (SPSE) and its development. The study looks at how SPSE has developed from the time of its formal establishment. It also looks at some of the current impediments affecting its development and provides some possible suggestions. The market trends in terms of stock market size, volume and value of trade, market capitalization, market liquidity, market concentration and number of listings were considered. The findings show that the SPSE is still at an early stage of its development path and the market indicators have not been very encouraging. The study finds that the Fiji's stock market size is quite small and is characterized by poor liquidity with high market concentration. It contends that if the stock market in Fiji needs to be developed then the current challenges facing the stock market really need to be addressed and the market players need to be more focused with policies that will lead to the stock market development.

Keywords: Emerging stock market, Stock market size, Volume and value of trade, Market capitalization, Liquidity, Market Concentration, Listing

Introduction

The financial system of any economy is seen to be divided between the financial intermediaries (banks, insurance companies and pension funds) and the markets (bond and stock markets). In promoting economic growth, a key factor is seen to be a healthy development of a nation's financial sector, which in turn improves the private sector's access to services such as bank credit, equity capital, payments and risk management services (World Bank, 2002). To facilitate this demand in the financial system,

the stock markets have grown considerably in the developed and developing countries over the last two decades. These stock markets fulfill a number of functions. Firstly, the market acts as a means of raising capital for companies. This is referred to as its primary market function and is accomplished either in the initial “floatation” (formation of a public company) or by an existing company issuing new shares. Secondly, a more important role is the secondary market function, which is the transfer of previously issued shares. This function enables shareholders to adjust their portfolios by increasing the ownership of shares in certain companies or liquidating shares in other companies. An efficient and liquid secondary market is vital to encourage the primary market role. Moreover, the stock market is an independent financial organization comprising of many individuals seeking to obtain the best return at the lowest risk. The share price is seen as an objective measure of investors’ assessment and expectations, hence acting as an external discipline over the investment behavior and management performance of a company. Finally, stock markets efficiently spread the risk of long-term investment projects by channeling the savings of individual investors into different companies.

For some developing economies, the stock exchanges are relatively large. The market capitalization of exchanges in Malaysia and Jordan represents a higher share of GDP than in France or Germany, while India’s stock exchange lists more companies than the stock markets of all other countries except the USA. But on the other hand, for many other developing countries, the equity markets until the mid-1980s generally suffered from the classical defects of bank dominated economies, that is, shortage of equity capital, lack of liquidity, absence of foreign institutional investors, and lack of investor confidence in the stock market (Agarwal 1997). According to International Finance Corporations (IFC) (1989), ironically in many countries where there are investment opportunities, there is inadequate access to finance, particularly risk capital and this underlines the need to accelerate the development of local capital markets or/and other elements of the finance market in developing countries. In addition to this, Engberg (1975) also recognized the need for the development of the capital markets especially the stock market for the less developed economies. He argued that stock markets could significantly raise the level of domestic savings and contribute to a more efficient allocation of such savings among the competing use of the savings. Moreover the work of Demirguc-Kunt and Levine (1996), Singh (1997) and Levine and Zervos (1998) find that stock market development plays an important role in predicating future economic growth in situations where the stock markets are active. The arguments of Demirguc-Kunt et al. (1996) indicate that economies without well-functioning stock markets may suffer from three types of imperfections: first, opportunities for risk diversification are limited for investors and entrepreneurs, second, firms are unable to optimally structure their financing packages and third, countries without well functioning markets lack information about the prospects of firms whose shares are traded, thereby restricting the promotion of investment and its’ efficiency.

Considering the contributions of the developed stock markets to their economies has led researchers to focus on how the stock markets can be developed in the developing economies so that these economies also enjoy the benefits of the stock markets. Consequently, this study focuses on how a recently established stock market in a small developing pacific nation, the Fiji Islands has developed. The study will also highlight some of the current impediments to the development of this market and will attempt to provide some suggestions of overcoming these problems. Research on these issues become important so that it can provide some insights as to how else a more diversified, competitive and vibrant stock market can be developed for Fiji. This will assist to raise investor confidence, improve resource mobilization and thus leading to economic growth.

Brief History of the Fiji Stock Exchange

Fiji, a former British Colony gained independence in 1970. In the 1980s the government of Fiji decided to focus on the development of the capital market as a component of its economic policies. Fiji has faced tough economic challenges in the last 20 years and availability of capital for increasing investment has been a major concern. This problem has been compounded by the scarcity of domestic

capital, a fall in foreign investment and huge trade account deficits. These problems caused the government to adopt various measures to prevent economic instability and improve the well being of the country. The financial sector deregulation in Fiji began in the early 1980s and gained attention in the various economic plans. Development of the financial system focused particularly on:

- strengthening and deepening of the financial structure
- promotion of a competitive financial environment
- introduction of new instruments and orientation of public debt policy towards a more flexible and market determined regime.

To achieve these objectives the government formulated various strategies. The Minister for Economic Development, stated that “the government has to tackle the most serious problems of mobilizing domestic savings to finance the nation’s investment program if it is to attain the desired goals (Toganivalu, 1978). This statement indicated a need for a mechanism, which can be an intermediary in the savings and investment process. So the development of the stock market was an integral element of the government overall strategy in order to utilize the private sector as the engine for economic growth. Fiji’s stock exchange, the South Pacific Stock Exchange (SPSE) which was formerly known as Suva Stock Exchange (SSE) had existed since 1979, but it initially operated only as a trading post. For the stock market the commencement of a formal call market trading from 1st July 1996 at the Suva Stock Exchange (SSE) and the establishment of the Capital Markets Development Authority (CMDA) in 1997 have added momentum to the development of the equity market. In December 2000 Fiji’s stock market name was changed from SSE to South Pacific Stock Exchange (SPSE) to allow for listing and investing opportunities in other jurisdictions in the South Pacific. Currently there are 16 companies listed on the Exchange with a market capitalization of approximately \$880 million compared with 10 companies with a market capitalization of \$243 million in 2000. The number of trading sessions from 2003 has increased from 3 to 5 per week. The government has also assisted in the development of the market by exempting tax on dividends for listed companies and has commenced the float of shares in government owned enterprises.

Like other developing countries, Fiji’s stock market is also playing a crucial role in the economy. It encourages companies to make IPOs and also provides a regulated market for the trading of existing shares between investors. Its basic function is a secondary market role facilitating the exchange of previously issued shares. It can be seen as an emerging stock market because there is an increase in the market capitalization, stock market size and number of companies listed from the period 1996 to 2005. Thus the market is in the development phase. But at the same time the SPSE is said to be saddled with low liquidity over the entire period of 1996 - 2005, which is evident on viewing the inactive market and the fact that Initial Public Offerings (IPOs) have not sustained the momentum observed between 2000 and 2001.

The subsequent section provides an assessment of the performance of Fiji’s stock market, its current trading mechanism and some of the current impediments of this market.

Trends in the Market Performance

How can the stock market development be measured? Theory does not provide a unique explanation of stock market development (Bundoo, 1999). However, the size of the market, volumes and value traded, market capitalization, liquidity of the market, market concentration and degree of listing would be used in this research as factors to provide an assessment of Fiji stock market’s development.

The Size of the Market

The assumption behind this measure is that overall market size is positively correlated with the ability to mobilize capital and diversify risk on an economy wide basis (Agarwal 2001). For the size of stock markets the work of La Porter et al. (1997, 1998) and Levine and Zervos (1998) using the stock market capitalization to GDP ratio is employed as an indicator of market development.

The market capitalization, GDP information and market capitalization to GDP ratio is presented in table1. Also figure 1 shows the trend in the market size between 1996 and 2004. It can be seen from the table and the figure that the stock market size increased from 1996 to 2002 and then fluctuated slightly from 2002 to 2004. In April 2002 Amalgamated Telecom Holdings (ATH) got listed and the data show that its impact on the stock market size has been enormous. It had a market concentration of 63.7%¹ and this is the reason for the significant increase in the stock market size in 2002. The data do show that increases in the listings have a positive impact on the stock market size.

The levels of financial intermediary development and openness to trade appear to be the most significant macro-factors that have a positive impact on the size of the equity market in the world at large. This finding is intuitive given that financial intermediaries monitor and control managers and help bring firms to list and thus countries with well-developed financial intermediaries tend to have larger equity markets.

Fiji is a small economy as shown by the Gross Domestic Product column in Table 1. Consequently the market is correspondingly small and the number of firms disposed to list is limited.

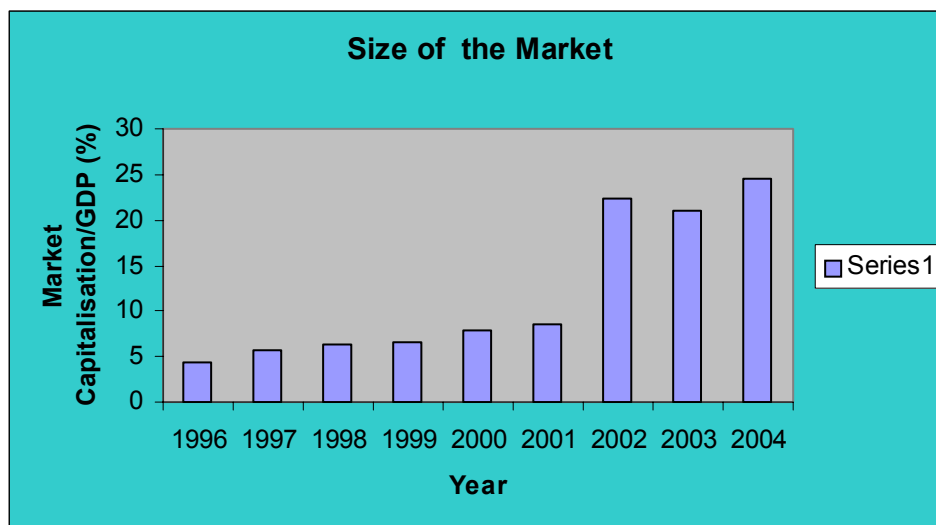
For instance, in Kenya before its independence in 1963, there were 10 listed companies at the Nairobi Stock Exchange (NSE). The period after independence, particularly the 1970s, saw 20 more listed companies. The 1980s recorded 5 new listed companies, a number that doubled in the 1990s. Between 2000 and, five companies were newly listed. In total there are 51 listed companies in Kenya currently.

Table 1: Market Size, 1996-2004

Year	Market Capitalization (\$million)	Gross Domestic Product (gdp) (\$ million)	Market Cap/GDP(percentage)
1996	114	2575	4.4
1997	144	2571.1	5.6
1998	175	2792.5	6.3
1999	214	3238.8	6.6
2000	243	3049.1	8.0
2001	275	3199.5	8.5
2002	769	3442.9	22.3
2003	748	3546.2 (estimate)	21.1
2004	882	3584.1 (estimate)	24.6

Data Source: South Pacific Stock Exchange and Reserve Bank of Fiji

Figure 1: The Size of the Stock Market from 1996 to 2004



Data Source: South Pacific Stock Exchange and Reserve Bank of Fiji

¹ $489641647/768655353 = 63.7\%$

Volume Traded and Value of Shares Traded

The trading of stocks maintains market fairness, competitiveness and efficiency. Using volume and value of trade as a measure of the market’s trend intensity, or momentum, is common. By applying the movements in volume of trade, we can get a better insight into the prevailing market sentiment, because we can uncover those years where the biggest trading activity is taking place. Having access to advancing and declining volume data will thus reveal where the majority of traders are focusing their activities.

Table 2 and figures 2 a and b show the trends in volume and value of trade on the SPSE from year 1996 to year 2005.

Table 2:Volume and Value of Shares Traded, 1996-2005

Year	Volume of shares traded(million)	Value of shares traded(\$million)
1996	0.2	0.4
1997	2.1	2.9
1998	4.6*	9.7
1999	3.4	4.9
2000	2.5	8.1
2001	2.6	4.4
2002	6.8	7.1
2003	3.6	4.3
2004	7.8	12.7
2005	5.9	7.9

Data Source: South Pacific Stock Exchange

* Includes the takeover of 1.6 million SPD shares by CBF and the transfer of 1.4m Fiji TV shares through a private transaction

Figure 2 a: Volume of Trade between 1996 and 2005

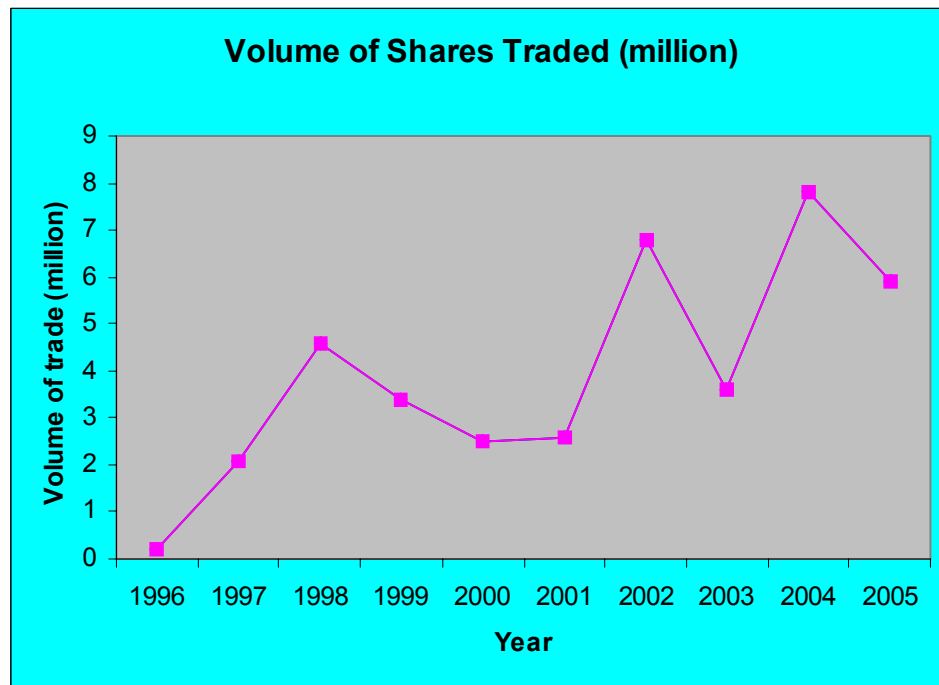
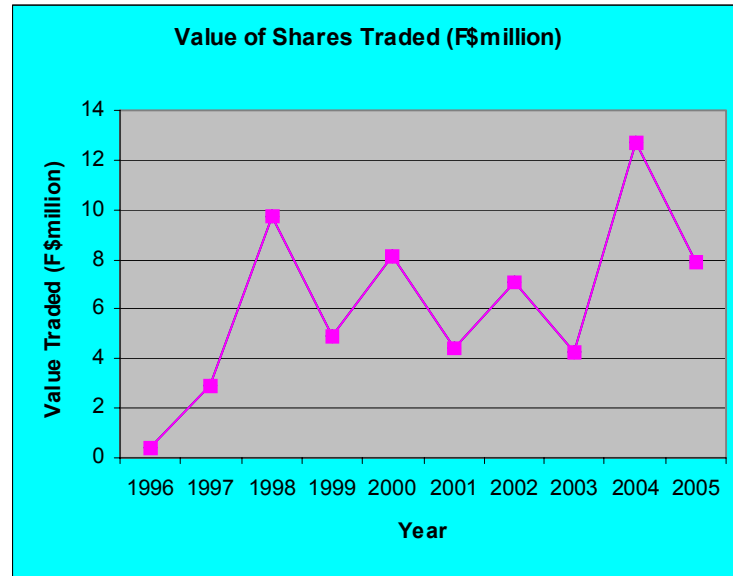


Figure 2 b: Value of Trade between 1996 and 2005

The general trend is one of fluctuations between 1996 and 2005. However, the volume and value of shares traded in 2005 is higher than 1996.

From 1996 to 1998 there was an increase in the volume as well value of trade but then in the year 1999 there was a decline in both the value and volume of trade. Then the first quarter of 2000 showed some active trading at the South Pacific Stock Exchange but after that the trading level decreased. The volume of shares traded decreased by 36% compared to the 1999 trade but the value of shares increased by 65%, which was due to the increase in the number of trades in CBF, FMF and SPD.

In 2001 the four new listings², which were post-coup listings, led to an increase in the volume traded but there was a decline in the value of shares traded. Following this the number and value of shares traded in 2002 increased but in 2003, there was a reduction in terms of the number and value of shares traded. In 2004 the number of trades executed on the SPSE reached an all-time high of 881 trades, exceeding the number of trades executed in 2003 by 50% and at the same time the value of shares traded also increased significantly by 195%. However, there was a decline in the value as well as volume of trades in 2005. This decline is highly attributable to the significant decline in the number of trades and number of shares traded in PGI and RBG in 2005.

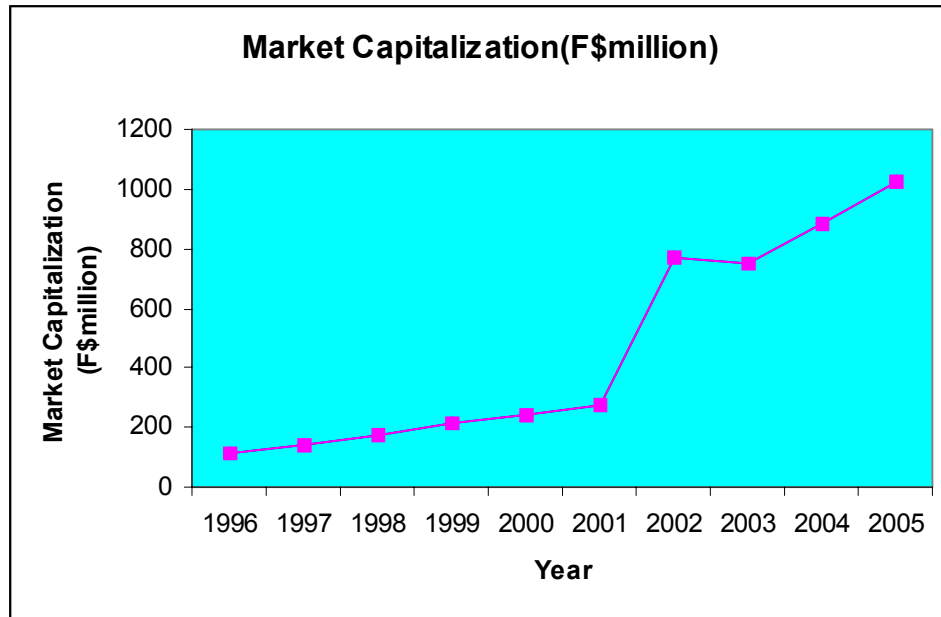
Market Capitalization

Table 3: Market Capitalization, 1996-2005

Year	No. of Listed Companies	Market Capitalization (\$million)
1996	4	114
1997	8	144
1998	9	175
1999	9	214
2000	10	243
2001	14	275
2002	15	769
2003	15	748
2004	16	882
2005	16	1 024

Data Source: South Pacific Stock Exchange

² Pacific Green Industries (Fiji) Limited (PGI), RB Patel Group Limited (RBG), Vishal Bharteeya Company Limited (VBL) and Communications (Fiji) Limited (CFL)

Figure 3: Market Capitalization between 1996 and 2005

Market capitalization is seen as an indicator of the amount of growth in the market. As shown in table 3 and figure 3 the trend of the market capitalization is one of growth from the year 1996 to the year 2005.

From year 1997 to year 2001 the increase in the market capitalization has ranged 13 to 26%³. In the year 2002 there was a significant increase in the percentage. This substantial growth was attributed to the listing of Amalgamated Telecom Holdings Limited (ATH), one of the largest groups in Fiji. In the year 2005 the market capitalization has increased to F\$1.024billion. This increase in market capitalization is mainly due to the share split in FMF and the increase in share price of FGP.

Market Liquidity

Liquidity generally refers to the ability to buy and sell securities easily. Liquid equity markets allow companies on the one hand to have a permanent access to capital through equity issues and on the other hand, to allow investors to switch out of equity if they need to access funds or if they want to change the composition of their portfolios.

Two measures of liquidity commonly used in the literature are computed: total value traded to GDP and the turnover ratio. The turnover ratio gives the total value of shares traded in relation to the size of the market. The results are reported in the 2 tables 4 a and 4 b.

³ Percentage increase in market capitalization; 1997, 26.3; 1998, 21.2; 1999, 22.3; 2000, 14; 2001,13; 2002, 180; 2003,-2.7; and 2004,18.

Table 4a: Market Liquidity (Total value traded/GDP)

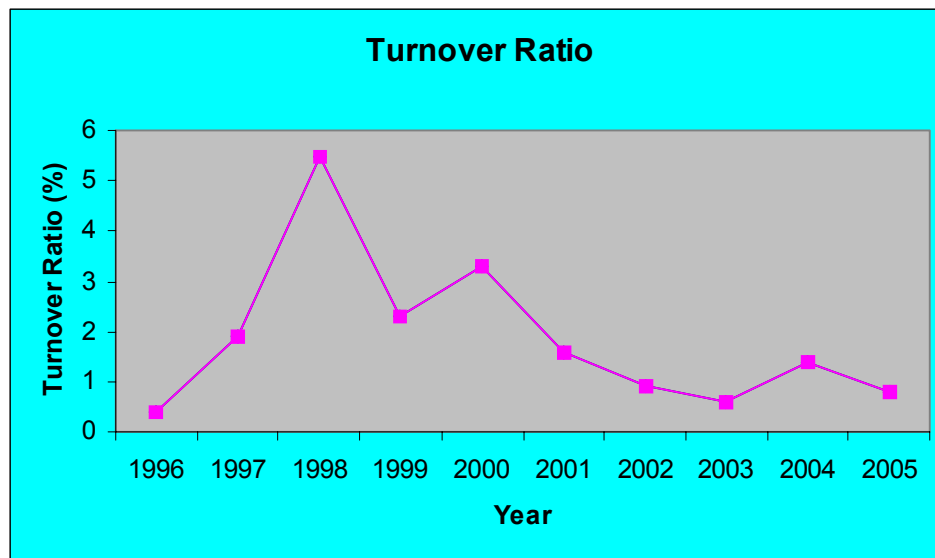
Year	Value of Shares Traded (million \$)	Gross Domestic Product (GDP) (\$ million)	Total value traded/ GDP (percentage)
1996	0.4	2575	.0002
1997	2.8	2571.1	.001
1998	9.6	2792.5	.003
1999	4.9	3238.8	.002
2000	8.1	3049.1	.003
2001	4.4	3199.5	.001
2002	7.1	3442.9	.002
2003	4.3	3546.2 (estimate)	.001
2004	12.7	3584.1 (estimate)	.004

Data Source: South Pacific Stock Exchange

Table 4 b: Market Liquidity (Turnover Ratio)

Year	Value of Shares Traded (million \$)	Market Capitalization (\$million)	Turnover Ratio (%)
1996	0.4	114	0.4
1997	2.8	144	1.9
1998	9.6	175	5.5
1999	4.9	214	2.3
2000	8.1	243	3.3
2001	4.4	275	1.6
2002	7.1	769	0.9
2003	4.3	748	0.6
2004	12.7	882	1.4
2005	7.9	1 024	0.8

Data Source: South Pacific Stock Exchange

Figure 4: The Turnover Ratio Between 1996 and 2005

From figure 2.4 it can be seen that there is a significant increase in the turnover ratio between 1996 and 1998 and then from 1999 there are fluctuations in the turnover ratio. Low liquidity is particularly evident over the entire period. This can be seen as characterized by low levels of trading activities and several factors could account for this. Maybe shareholders are not willing to part with their shares due to differences in their expectations. Also perhaps the buy and hold strategy, rather than a speculative strategy, predominates. There might also be a lack of awareness among the investing public. Investors are used to placing their money in bank deposits and keeping it there for a long period

of time. The low turnover ratio may also be attributed to the limited flotation of shares⁴. Only 0.3% of ATH shares are available for trading on the stock exchange. As per 2004 ATH had a market concentration of 59.2%⁵. With an increased flotation by ATH the market liquidity may improve.

Market Concentration

Market concentration can be measured by looking at the share of market capitalization accounted for by the large stocks. These large stocks are seen as the leading 3 to 5 firms in the market (Maunder et al. 1991). In many economies only a few companies dominate the stock market (Bundoo 1999). High concentration is not desirable as it can adversely affect liquidity, as it is common to find a negative correlation between concentration and liquidity. Table 5 shows the market concentration percentages. The leading 5 companies are considered to be large stocks in Fiji and the selection of these leading companies changes with the new listings depending on if they are part of the group of leading companies. As evident from the table the market concentration has been hovering at 43 % or above for all the years from 1998 to 2005 and from the year 2002 to 2004 it has exceeded 70%. This high market concentration in 2002 is an effect of the listing of ATH. This shows that Fiji's stock market is a highly concentrated stock market and this can also be a reason for the low liquidity in the stock market.

Table 5: Market Concentration Between 1996 and 2005

Year	Market capitalization of large stocks /total market capitalization	Market Concentration (%)
1998	73963217/174834816	43
1999	117888554/213942482	55
2000	145419147/242822130	60
2001	164680505/274568350	60
2002	586941647/768655353	76
2003	557610111/748357676	75
2004	654094306/881998128	75
2005	709907923/1023847442	69

Source: South Pacific Stock Exchange

Market Listings

Table 6 shows the number of the listed companies between 1996 and 2005. It shows that the number of the listed companies has increased from 10 in 1996 to 16 in 2005. However, from 1998 to 1999 and then from 2002 to 2003 the SPSE did not have any listing.

Table 6: Listings, 1996-2005

Year	No. of Listed Companies
1996	4
1997	8
1998	9
1999	9
2000	10
2001	14
2002	15
2003	15
2004	16
2005*	16

* The number of listed companies increased to 17 after the listing of YGL at the end of March 2005 but the merger of SPD and CBF decreased the number to 16 by the end of 2005.

Source: South Pacific Stock Exchange

⁴ Flotation of shares by the listed companies in percentages. APP, 40; ATH, 0.3; CFM, 71.16 ; FGP, 52 ; FIL, 28.6;

FMF, 12; FSC, 13.9; FTV, 68.7; KGF, 3.5 ;PGI , 38.17; RBG ,15; RCF, 50; TTS , 70; VBL, 20.4;YGL,1.4; and FHL, 52.3

⁵ 748357676/443210111 = 59.2%

South Pacific Stock Exchange's Trading System

Stock markets can be differentiated by their trading systems. These trading systems vary in the way transactions are handled, type of transactions made, type of information available to market participants, and the process of matching orders to sell and buy (Glen 1994).

Trading systems can be classified by the method of matching the orders, i.e. periodic vis-à-vis continuous market, and also by the presence of a market maker, i.e. continuous system with a monopolistic specialist vis-à-vis a competition continuous market. In a periodic call auction market, orders are accumulated for simultaneous clearing at a predetermined time and at a common price. Continuous markets allow investors' orders to be executed immediately upon arrival. In a continuous auction market (order driven market) investors' orders are executed through an auction process one by one upon placement, such that prices are determined multilaterally. In some markets, for example, the NYSE, there is a specialist who posts the bid and quotes. Most of the emerging markets with a continuous auction do not have a specialist, such that trades are accumulated for execution on prices determined when the market opens for trading. In a continuous dealership market (quote-driven market) investors trade immediately with a market maker so that each order is satisfied separately by a single dealer who does not know the orders received by other dealers.

Garman (1976) observes an evolutionary pattern in the adoption of trading systems, by noting that US stock markets evolved from call market (trading synchronously at pre-established discrete times) to continuous market (trading asynchronously during continuous intervals of the time), as growth in the volume of transactions was realized. A similar pattern is emerging in the developing markets, in the revitalization process, where there is a continuous shift from the periodic call auction system to more frequent trading with continuous auction system.

This is true for the South Pacific Stock Exchange (SPSE) too, as the calls were increased from three to five weekly. Trading on SPSE happens through a centralized call auction market system five days a week. Prior to this the call market was called days a week, Mondays, Tuesdays and Thursdays. Because of the increase in the number of buyers there was a need to move from three sessions to five. Orders for the share trading are processed in price-time priority. Orders to buy at higher prices have priority over those at lower prices, while orders to sell at lower prices have priority over those at higher prices. If orders to buy or orders to sell are at the same price, the order that was placed earliest enjoys priority.

The main motivation, however, is the anticipated growth in the market with the institutional and policy changes. For example, the Tel Aviv stock exchange gradually shifted from a call auction system to a mechanism where call auction was followed by iterated continuous trading sessions, (Amihud et al. 1997). The main objective of changing the system was to create an efficient and well functioning market for trading as transaction frequencies were increased, to reflect a continuous trading system (Chang et al. 1999 ; Lang and Lee 1999). The Nairobi stock exchange has also witnessed a switch from the call system to continuous auction system.

The literature indicates that an auction market is more efficient than the continuous markets, with its ability to enhance liquidity and reduce market volatility (Madhavan 1992). This is because a call auction imposes an effective mechanism for dealing with asymmetric information problems, where the imposed delays in execution of trades forces traders to reveal information through their order placements (Comerton-Forde 1999). Prices in continuous auction markets are inefficient and more volatile. However, with immediacy in order execution, market liquidity is higher.

What can be seen is that the developed and emerging markets have different trading systems. While the developed market trading systems tend to be demand driven due to the highly liquid stocks in these markets, the emerging markets have adopted, trading systems in anticipation for growth. At the Polish stock exchange, for those stocks that were highly liquid the trading system was changed to continuous trading, from call auction. This shows that stock exchanges change their trading structures to improve trading opportunities for their listed stocks. Usually the introduction of a continuous trading system and a shift of stocks that were previously traded in a call auction to this new system depends on the context in which the market operates.

Current Impediments in the Development of the South Pacific Stock Exchange Increasing Listing at the SPSE

Up to the year 2005 there has been 16 companies listed on the SPSE. Table 5.11 in chapter 5 shows the number of listings over the years. In the year 1999 and 2003 there were no listing. Between the years 2001 and 2005 there have been 7 listings with 1 merger. This limited supply of new equities in the capital market has restricted the use of the equity market as a source of financing. For instance, Kenya, which is also a developing country and its stock market, is very much in the same stage as Fiji's stock market. Before its independence in 1963, there were 10 listed companies at the Nairobi Stock Exchange (NSE). The period after independence, particularly the 1970s, saw 20 more listed companies. The 1980s recorded 5 new listed companies, a number that doubled in the 1990s. Between 2000 and 2004, five companies were newly listed. In total there are 50 listed companies in Kenya currently. Moreover, the stock exchange of Mauritius (SEM) started operations in 1989 with only five companies on the official list and by the end of 2004 there were 39 listed companies.

As mentioned previously, the most difficult hurdle for the SPSE is increasing the number of medium-sized and large family-owned businesses and attracting the regional country listings at the SPSE. Up to the time of this research there have been no regional country listings and some considerations needs to be given by the SPSE and the CMDA why this is so. The majority of the businesses in Fiji are family owned where outsiders are rarely given the opportunity to assist in their development whether in the form of management expertise or indeed by providing capital. Management, accordingly, tends to reflect a self-perpetuating chain where sons and daughters occupy executive positions. These family-owned businesses are reluctant to dilute ownership and are hesitant to disclose confidential matters regarding their companies.

When companies are considering listing on the SPSE, the factors inducing listing include:

- to enhance the reputation of the company and
- to increase public awareness about the company and its products.

The listed companies view listing as a marketing device and enhancing their companies' image and publicity. They think that trading publicly could add value to the firms, as this would inspire more faith in the firm from other investors, customers, creditors and suppliers.

On the other hand the factors inhibiting listing include:

- fear of loss control by opening up firms to public ownership particularly by family owned business and
- fear of disclosure of information.

The risks associated with additional disclosure in terms of disclosing confidential information are considered to be very high and are seen as major impediments to listing on the SPSE.

Moreover, the availability of bank finance has made it fairly easy to obtain bank finance for those firms, which have a good profit history behind them and besides this there is a high liquidity in Fiji's finance sector. There is a perception, legitimate to some extent, that sourcing loan finance inhibits entrepreneurship to some extent and this may be another reason for firms to choose debt rather than equity financing. In addition to this, the ability of firms to raise start up capital from own savings or borrowings from parent companies have reduced the need to raise more capital through equity financing. The study shows that both subsidiaries under study very strongly said that additional financing is no concern as the parent companies have always assisted them when required.

Listing Requirements

According to the listed companies, the present listing requirements are quite stringent with very less flexibility in the rules of listing. This could be seen as one of the contributing factors to the lack of listing or could be a contribution to the elimination or disqualification of many business enterprises in Fiji. But in comparative terms this might not be hold true. The other developed and developing economies stock exchanges have tougher listing requirements where companies do find the listing

requirements onerous. The unlisted companies did not have much to say on this as none of them had really studied the listing requirements.

Liquidity

The trends in the market performances in chapter 2 show that the SPSE is a small, illiquid and volatile market. It is quite a highly concentrated market with most of its activity centered on a few listed companies. The low turnover ratio, which is less than 5.5% may be attributed to the limited floatation of shares in the market. In addition to this, there is a high incidence of buy and hold shares by many investors. Moreover, the literature assumes that the utility of investors is determined by the return and risk characteristics of the investment. The alternative investment opportunities such as the real estate investment, unit trusts, superannuation may encourage the investors to invest their savings in these places, as they are more familiar with them.

Public awareness

The survey identifies lack of public awareness on the role, functions and operations of the stock exchange and the Capital Market Development Authority (CMDA) among potential investors and business entities. The listed companies highlighted this shortcoming but it is seen as a major problem amongst the unlisted companies. Fiji has many small islands and many of these islands have never come across any special marketing regarding the benefits of investing in shares or being listed. The CMDA and the SPSE have been initiating some concerted efforts through public seminars or by using media but it does not seem to market themselves sufficiently to potential investors or provide a variety of products to attract companies. This lack of adequate knowledge of the majority of the interested investors about the SPSE's operations could be a major hindrance to corporate participation in stock market. This may be attributed to the financial and human resource constraints.

Investment Climate

The results of the study show that the political and economic uncertainties of the country have also been seen as major determining factors by the potential investors as well by some of the potential companies in investing and listing decisions. These uncertainties have facilitated the decline in confidence of many potential investors and companies in the stock markets.

Type of Trading

The current manual trading system is seen by some by the SPSE as slow and limits the range of products that can be provided by them. The fact that the SPSE is not linked to other international markets outside South Pacific can also limit its growth, liquidity and expansion of the market.

Tax Incentives

While existing listed companies are exempted from paying taxes on dividends, there are no tax incentives to attract companies in their initial stage of listing. A number of developing countries have used tax incentives as the preferred way to encourage more companies to list and to stimulate the development of the market. For example, in Mauritius, corporate listings have been induced by tax incentive schemes whereby the listed companies and its shareholders were lightly taxed compared to other corporates.

The fiscal incentives available in relation to the Stock Exchange of Mairitius (SEM) are:

- exemptions from tax for dividends received from listed companies (including distribution to unit holders and interests on bonds)
- exemption from tax gains from the sale of shares and debentures quoted on the official list

- deduction of 10% of the actual amount paid in cash may be claimed by companies (other than the tax incentive companies) subscribing to the share capital issued by other listed companies in the income year in which the investment is made, as well as the following two years
- companies listed on the official list pay tax at 24.5%
- free repatriation of capital and
- foreign companies and offshore funds pay only 50% of the listing fees.

Fiji also needs to provide such incentive in order to attract more companies to the stock market, as most of these companies do not have difficulty in accessing loans directly from the financial institutions.

Resources Availability

There is a general scarcity of resources at the SPSE. The availability of resources like finance, human expertise and technology, are really inhibiting the development of Fiji's stock market. Upon discussion with the CEO of the stock market, it can be said that this unavailability of the resources is considered to be one of the most prominent challenges currently facing Fiji's stock market. This is also considered to be the obstacle in terms of upgrading the stock market because without the availability of finance, human expertise and technology it is really difficult to introduce changes in the stock market.

Location

The current location of the SPSE is in the central Suva, the 2nd floor of one of the largest Plaza in Fiji. This office is not easily accessible to many interested investors, especially those who are not much familiar with the city area. This current location is seen as a possible factor in its slow growth. In addition to this, two of the three major stockbrokers' offices are located in the same building, one on the same level and the other one at a level higher.

Recommendations

In view of the challenges discussed with regards to the SPSE, the following recommendations are proposed.

Education

The SPSE together with the CMDA should increasingly play an educational role and embark on a vigorous campaign to market itself and educate the potential investors about the opportunities available in the market and how to effectively use them. When the people are not well aware of the operations of the SPSE, there is a tendency to go for known and familiar investments such as bank savings accounts or real estate investments. A more active campaign can deepen and widen peoples' knowledge of what can be done in order to safeguard one's wealth. This may be achieved through hiring members of staff who are very well trained in marketing, research and market analysis.

Perhaps the dissemination of knowledge could be strengthened through the diversification of communication channels including media (radio, television and newspapers) where a special session can be devoted to investment in shares, distribution of literature to key stakeholders, having some face to face meeting with potential investors and educating them about stock markets. The CMDA should try to set a branch office in different districts to reach people in the rural areas. The SPSE together with the CMDA could look for donor partnerships to fund these types of market development programmes, as the availability of finance has been an inhibiting factor in its development.

One of the respondents mentioned that investor education may also be done through incorporating information on investment and the capital markets in the secondary schools and colleges

curriculum to enhance the awareness to the younger generations and create some sort of interest in equity investment at an early stage.

Listing Requirements

The survey highlighted the stringent listing requirements as deterrence to listing on the SPSE. It could be recommended that the SPSE should have separate listing regulations for different categories of business. For example, the family owned businesses in Fiji are very much concerned about the loss of control of ownership and if the listing rules somehow helps them to ally this fear then this should encourage more listing. One of the managing directors of a family owned business said;

'There is a real need of some 'pep talk' by the CMDA and the SPSE which could erode our fear of loss of control of ownership and decision making abilities when we go public'.

Stock Market Integration with the region

The SPSE should really encourage some regional listings first before moving to cross-border listing. The stock market needs to be integrated with some regional listings so that country specific risk is minimized and also investors can achieve risk diversification. Once there are more listings at the SPSE then cross-border listing will have a positive impact on the economy. Without having some very good companies listed on the SPSE cross-border listing may only encourage capital outflow from the country as any good investor will want to invest in companies that are operating on a bigger scale and have achieved economies of scale and are more profitable. This may also impact the liquidity of the shares currently traded here in Fiji.

Regulatory Environment

The regulator body of the SPSE, the CMDA is seen as a heavy-handed type. It is suggested that if the CMDA is seen as an effective partner in growth and development of the stock market then it must adopt a more supportive approach and be a catalyst in the development of what is currently a very small stock market. It must see itself not as a supervisor of the companies listed but as an agent of change, of encouraging more companies to choose to go public, of being an advocate with the tax and fiscal authorities for increasing incentives for going public. On the whole, the SPSE, which is still at the very early stage of development and has the potential to develop, really needs strong support from its regulatory body, the CMDA.

Market Structure

Currently, the SPSE is active in one product market, selling and buying of shares. However, if instruments like bond trading become more active, it can give a boost to Fiji's stock market. It is said that bonds are usually more attractive to investors rather than stocks, (Kibuthu 2005). This is a place where the regulatory body could take the lead role rather than waiting for the stock market to activate the bond trading. Government and its agencies like the CMDA in developing countries have a major role in nudging institutions towards desirable development paths rather than waiting for the stock exchanges to point in the right direction. A well integrated and customized financial information service that provides timely and accurate information service to individuals and corporate institutions is necessary for the development of bond markets, Kibuthu (2005).

Over-The-Counter (OTC)

An OTC is a securities market that exists for securities not listed on stock exchanges. It may apply to unlisted limited liability companies, private companies, financial institutions and banks. Currently the operation of OTC market in Fiji has resulted in the existence of an informal and inefficient market where investors intending to trade in unlisted securities search for buyers on their own, maybe through bankers or other sources. The formal operation of OTC in Fiji can encourage a much fair-trading.

Trading system

The reforms in the trading system of any stock exchange are aimed at improving stock market performances by increasing liquidity and transparency, enhancing efficiency and reducing volatility together with the trading costs. Liquidity and transparency are desirable because they reduce the required return by investors and therefore increase the security values. In Fiji, to change the current open-outcry trading method to electronic trading, it is important that the positive and negative values in terms of liquidity, efficiency, volatility, transparency have to be really evaluated. Prior studies have shown that a reform in the trading systems in more established stock markets have generally shown a positive impact, creating gains in efficiency of the price discovery process, increased liquidity and lower volatility. However there are fewer studies on the emerging stock markets where the results are more mixed. One of the features of the emerging stock markets is that many of the stock exchanges are of recent origin and relatively few stocks are traded and the SPSE can be one example. As mentioned in chapter two of this thesis, the development of the stock exchange in Fiji is seen to fit a New Institutional Economics enhanced by insights from sociological neoinstitutionalism where the situational and societal needs are considered. Here the cultural values are such that the majority of investors for whom a stock exchange is an unfamiliar/ unknown concept, would want to observe and understand what is happening in the stock market and how actually the trading takes place and the prices that they receive and for all these the current trading system is more appropriate than the automated system.

Hence, the current amount of trade and the cultural values may not really justify an electronic system now and the current trading system may be considered as a more visible/transparent system but at the same time reforming the trading system in the future depending on the amount of trading, liquidity and listing could be something that the SPSE should keep in mind.

Privatization

Literature shows that a lot of studies have conclusively documented a direct link between privatization and stock market development. These studies implied that governments choose privatization as a means of developing their stock markets. Claessens, Djankov, and Klingebiel (2001) investigate the development of stock markets in a group of transition economies and highlight the role of privatization for stock market development in this sample of countries. Privatisation in Fiji can also help to develop its stock market because ATH's privatisation had a very significant effect on Fiji's stock market in terms of its market capitalisation. Privatisation will provide a significant increase in the shares traded on the SPSE. The distribution of a substantial amount of equity resulting from privatization will also contribute enormously to the mobilisation of additional private savings for beneficial investment.

Location

A more suitable location for the SPSE would be close to the largest financial institution in the country. The stockbrokers should then be shifted near the stock exchange so that the interested investors get easy access to the exchange and to the investment advisors.

Conclusion

Fiji is no exception to other developing countries which are working towards reforming and deepening their financial systems through the expansion of its stock markets in order to improve their ability to mobilize resources and efficiently allocate them to the most productive sectors of the economy. A number of indicators like the size of the stock market, volumes of trade, market capitalization, market liquidity, market concentration and degree of listing are used to show how the market has grown over time. As indicated by the current trends, the market seems to be saddled with low liquidity and slow growth in listings hence the current profile of the SPSE is not very encouraging. The market is seen as

facing a lot of challenges in its development and growth so it is crucial that the policies related to the Fiji's stock market be given another focus and a more harmonized look. The critical bottlenecks that would dynamise the stock market should be clearly identified so that a better framework can be developed to guide the development of appropriate policies which will ultimately ensure the orderly functioning of the stock market.

References

- [1] Agarwal, (2001). Stock Market Development and Economic Growth: Preliminary Evidence from African Countries.
- [2] Agarwal R.N.,(1997) “Inflow of Foreign Portfolio Investment in Developing Countries: A study of Determinants and Macroeconomic Impact”, *The Indian Economic Review*, Vol.32, No.2 pp.217 – 229.
- [3] Amihud, Y., Mendelson, H. and Lauterbach, B., 1997, ‘Market Microstructure and Securities values.Evidence from Tel Aviv stock exchange,’ *Journal of Financial Economics*, 45.pp.365-90.
- [4] Bonnici, M., 1997, ‘Letter of Transmittal’ Minister of Finance & Commerce, Malta.
- [5] Bonser-Neal,C.,Linnan,D. and Neal R., (1998) “Emerging market transaction costs :Evidence from Indonesia.Pacific-Basin “, *Finance Journal*,7 pp.103-127.
- [6] Bundoo, S. K., 1999, ‘The Mauritius Stock Exchange: An Assessment,’ Social Sciences & Humanities and Law & Management Research Journal. University of Mauritius, Mauritius.
- [7] Chang, R.P., Hsu, S., Huang, N. and Rhee, S.G., 1999, ‘The effects of Trading methods on volatility and liquidity:evidence from Taiwan Stock Exchange,’ *Journal of Business Finance and Accounting*, 26 (1/2).pp.137-70.
- [8] Comerton-Forde, C. 1999, ‘Do trading rules impact on market efficiency? A comparison of opening procedures on Australian and Jakarta stock exchanges,’ *Pacific-Basin Finance Journal*, 7.pp.495-521.
- [9] Edey M.,(1996) “ The Future of the Financial System,” Reserve Bank of Australia.
- [10] Fiji Development Bank. (Various issues). Board Papers. Unpublished. Garman, M.B., 1976, ‘Market Microstructure,’ *Journal of Financial Economics*, 3, pp. 257-275.
- [11] Glen J.(1994) “A introduction to the microstructure of emerging markets”. International Finance corporation.Discussion Paper No.2 Washington D.C.IFC
- [12] Greenwood J. and Smith B.D. ,(1997) “Financial markets in development and the development of financial markets”. *Journal of Economic dynamics and control*,(21),pp.145 –181.
- [13] Guthrey, L.F., 1978, ‘Letter to the Editor,’ *The Fiji Sun*, 16 November: 3
- [14] La Porta R., Lopez-de-Silanes F., Shleifer A., and.Vishny R.W.,(1998) “Law and Finance” , *Journal of Political Economy* 106 (6), 1113-55
- [15] La Porter, R. Lopez-de-Silanes.,F, Shlieifer A. and Vishny R.W., (1997).“Legal Determinants of External Finance ”, *Journal of Finance*, 54 pp.471 – 517.
- [16] Levine R.and Zervos S., (1998) “Stock markets, bank, and economic growth”,*American Economic Review*, June pp.537-558.
- [17] Levine, R. and Zervos S., (1998) “ Stock Markets,Bank and Economic Growth”, *American Economic Review* 88 pp. 537-558.
- [18] Madhavan, A., 1992, ‘Trading mechanisms in securities markets,’ *Journal of Finance*, 2.pp.607-41.
- [19] Maunder, P., Myers, D., Wall, N. & Miller, R. (1991) *Economics Explained*. 2nd ed. London, HarperCollins
- [20] Nagaishi, M., 1999, ‘Stock Market Development and Economic Growth,’ *Economic and Political Weekly*, July, pp.2004-12.
- [21] Nagraj, R., 1996, ‘Indian Capital Market Growth: Trends, Explanations and Evidences,’ *Economic and Political Weekly*, March. pp.33.
- [22] Namasivayam L.,(1992) *Survey of the Suva Stock Exchange and Recommendations for Reform*. Suva Fiji.
- [23] Singh A.(1997) "Financial Liberalization, Stock Markets and Economic Development", *Economic Journal*,107,pp.771-782.
- [24] Singh A.,(1997) “ The Stock Market, Industrial Development and the Financing of Corporate Growth in India”in D.Nayyar (ed) *Trade and Industrilization*, Oxford University Press Delhi.
- [25] World Bank, 2005, *World Development Report*, Oxford University Press, New York, NY.