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Factors influencing the withdrawal of foreign investors from the Zimbabwe stock market: June 2015 to June 2017

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Abstract

The purpose of the study was to determine the factors that influenced foreign investors' exit from the Zimbabwean stock market from June 2015 to June 2017. Numerous reports on a big departure of foreign investors from the local stock market motivated the research. 50 shareholders, 10 stock analysts, and 6 asset/investment managers made up the representative sample. The study used a qualitative research paradigm with a case study approach. Unstructured interviews and a questionnaire were used to collect data. The data was presented and analyzed using qualitative data analysis and descriptive statistics. The findings revealed that macroeconomic instability, liquidity issues, and the political environment were the main factors affecting foreign investors' withdrawal from the Zimbabwean stock market. The stock exchange market was also discovered to play an important function in the economy. Risk diversification, equity financing, market capitalization, and economic growth were discovered to play these roles. The need to reinvigorate the country's economy, increase liquidity, investor protection regulations, trade openness and political certainty are among the recommendations presented. The implementation of proposals to demutualize the bourse was also urged to improve accountability in the way it is administered.

Keywords: primary market, stock exchange market, capital market, financial system, economic growth

Introduction

Despite the fact that there are numerous obligations on the role of the Zimbabwe Stock Exchange (ZSE) in economic growth, attraction, and retention of foreign participants in the Zimbabwean stock market, most studies did not focus on or address the exclusive impact that foreign participants' withdrawal from the Zimbabwe Stock Exchange has on the national economy. Stock market exchanges are not given enough attention in the current investment discourse in Zimbabwe, despite the fact that they are a major source of capital goods for the country's financial and stock markets. However, the observed gap was expected to be filled with this study by analyzing the factors that influence foreign participants' withdrawal from the ZSE.

Background to the study

The Stock Exchange Act governs the operation of the Zimbabwe Stock Exchange (ZSE) (Chapter 198). ZSE is made up of two indices, the Industrial Index and the Mining Index, and it was opened to foreign investment in June 1993. The ZSE is regulated by the Zimbabwe Securities Exchange Commission (SECZ). SECZ is a legislative agency established under the Securities Act of 2009 that functions to oversee the trading process in order to improve transparency and reduce capital market manipulation.

After the Johannesburg Stock Exchange (JSE) and the Egyptian Stock Exchange, the ZSE is one of Africa's oldest stock exchanges (ESE). In terms of the number of listed companies, it is Africa's fifth largest stock market. The Johannesburg Stock Exchange (JSE) is the largest, followed by the Nigerian Stock Exchange (NSE), Egyptian Stock Exchange (EGX), and Mauritius Stock Exchange (ZIPERU, 2011) [12]. In terms of age and listings, the ZSE is second only to the JSE in Southern Africa. However, ZSE is not among the largest exchanges in terms of market capitalization and traded values. Meanwhile, the Chairman of the ZSE released a statement on December 15, 2016, which was published in the current issue of The Herald on December 15, 2016. The statement was made in response to negative reports about the bourse's operations that appeared in the Zimbabwe Independent on 9 December 2016 and the Daily News on 13 December 2016. The following was part of the Chairman's statement:

"As a Public Interest Entity, the ZSE values constructive dialogue with all stakeholders in the market's evolution. However, the ZSE believes that recent negative articles, which are without merit, damage the ZSE's credibility, reputation, and goodwill; cause financial loss to the ZSE; harm the ZSE's brand, shareholders, board, and management; taint the Zimbabwe capital markets; and affect the ZSE's, its stakeholders', and the country's current financial interests. The financial health of any exchange is a systemic risk that should not be overlooked, since it has the ability to destabilize the financial ecosystem"

Furthermore, the business writer wrote in a separate piece for The Business Herald on December 30, 2016, under the subject "Stock Market Mixed in 2016,"stating," a year for stock market investors that signifies many things, as stock prices bounced from one extreme to the other in a challenging economy. The stock exchange was in the red for nine (9) months before panic buying fueled by fears about the introduction of bond notes between October and December helped investors recoup some of the losses sustained for the most of the year."

According to MMC Capital Research (2016) [16], the market capitalization of the Zimbabwe Stock Exchange fell to $3.8 billion in the first half of 2016 from $4.8 billion in the same time of 2015, a loss of $1 billion. According to the same report, foreign stock market involvement fell by 52.46 percent in the first half of 2014, with foreigners buying $70.5 million worth of shares, down from $148.3 million in the first half of 2014. Furthermore, according to MMC Capital Research (2017) [17], foreign investor participation continued to decline in 2016, with the majority of transactions being sales as a result of foreign investors' withdrawal from the local market. The ZSE market capitalization fell by 2.6 percent in February 2017 from $4.01 billion in January 2017 to $3.9 billion, indicating a drop in the indices. Since September 2016, the overall market turnover has decreased by 67.1 percent to $8.553 million. Between January 2016 and January 2017, foreigners sold $145.84 million worth of stock and bought $61.675 million worth of stock, resulting in a $84.165 million net outflow.

To support the findings of MMC Capital Research, the Top Companies Survey (2016) [15] stated that "trading in 2016 remained focused predominantly on a few counters, with the top ten traded counters accounting for more than 85 percent of overall turnover." According to the same survey, certain ZSE counters failed miserably to attract buyers, rendering the exchange's 'efficient price discovery' function a myth.

International investor demand on the local exchange continued to dwindle in 2017, with foreigners selling to avoid the growing uncertainties caused by cash and foreign currency shortages. In the six months to June 2017, the local stock exchange experienced capital flight, with foreign sales of USD$58.28 million outnumbering foreign purchases of USD$27.77 million, resulting in a net capital outflow of USD$30.51 million (RBZ, 2017). Foreign portfolio flows from equity purchases by foreign investors provide market liquidity and stability, which is beneficial to not only listed companies but the country as a whole. However, the market was dominated by local investors during the study period, as foreigners lost interest in local shares (MMC Capital, 2017) [17].

As a result, the stock market's inconsistent performance and the mass removal of foreign players on the bourse piqued this researcher's curiosity, compelling him to investigate the elements that can impact foreign investors' withdrawal from the Zimbabwean stock market.

Purpose of the study

1. To examine the factors influencing the withdrawal of foreign investors from the Zimbabwean stock market.
2. To establish the role of stock market in the economy of Zimbabwe.
3. To recommend ways of improving foreign participation in the Zimbabwean stock market.

Research Methodology

This study, which used a case study research design, was mostly based on the qualitative research paradigm. A number of scholars, including Kumar (1984), Bencivenga and Smith (1991) [3], and Singh (1997) [10], have employed this study strategy successfully in other similar and related scenarios. Thematic content analysis was used to assess the qualitative data collected from the questionnaire's open-ended questions and interviews. In this case, the results were analyzed. In this case, the results were analyzed based on the most common and dominant responses to the various issues provided by the participants. For each question, only the main common themes found in each question are reported. Responses were found from the sample's responses to the questions posed based on the answers to each question. The information received from the questionnaire and interviews was combined to create a comprehensive picture of the variables influencing foreign investors' exit from the local stock market.

Literature review

Theoretical framework

This research was guided by Hanspeter Schmidii's (1994) risk theory. According to this hypothesis, there is a chance that the actual return on an investment would differ from what was expected. Risk refers to the possibility of losing a portion or all of one's initial investment. Various types of risk are frequently assessed by calculating the historical returns or average of a particular investment, with high standardised deviations indicating a high level of risk.

Many firms are now investing large amounts of money and time to establishing risk management strategies in order to manage hazards that threaten their businesses and investment dealings. Risk assessment, which includes determining the risks that a company venture faces, is an important part of the risk management process. Meanwhile, the technical analysis school, often known as chartists, comprises attempting to comprehend the price history and volume data for one or more stocks in order to forecast future patterns. Technical theorists' main thesis is that history tends to repeat itself. In other words, they assume that historical patterns and market behavior will recur in the future, therefore their utility for forecasting.

Factors influencing the withdrawal of foreign participants from stock markets

A large percentage of African stock exchanges do not have appealing and diverse products to offer to global investors. Stock market demand and supply have been restricted due to low savings. Poverty, political turmoil, conflict, and disease have all contributed to a large portion of the African population living on less than $1.00 per day, limiting savings. Market risk perceptions, banking sector developments, attractiveness of capital market yields, high tax levels, macroeconomic instability, public confidence in the financial sector, institutional quality, and shareholder protection have all influenced stock demand in Africa (Yartey) (2012).

Macroeconomic variables

Several studies have been conducted in order to identify the challenges that face the development of the African stock exchange market. According to Benimadhu, various experts have identified the elements influencing the development of the African stock exchange industry (2003). The elements that influence the growth of the African stock exchange market can be divided into two categories: first, political and macroeconomic issues. Governmental issues include political instability, whereas microeconomic factors include high GDP volatility and inflation.

The second group consists of stock exchange market specific characteristics such as manual trading, liquidity, market information availability, listed company practice, and corporate governance. Low investor confidence, limited listing, illiquidity, and a lack of regulatory framework are among the problems hindering the development of the African stock exchange market, according to Mensah (2003). The first issue or difficulty confronting the growth of the Zimbabwe stock exchange and the retention of investors is macroeconomic instability in Zimbabwe. Unemployment and inflation rates are macroeconomic issues. As a result, most investors lack capital, preventing them from participating in the financial system. Other considerations are explored further down.

Low liquidity is one of the key obstacles to the expansion of the stock market. According to Cohn (2000), a lack of a substantial number of listed businesses is a crucial factor in the lack of daily trading and, as a result, the stock's liquidity. According to Attu (2007), due to modest floats and the tiny size of many listed shares, liquidity remains a significant problem in Africa. According to the data, only three of the ten companies listed on the Tanzanian Stock Exchange have contributed a third of the overall market capitalisation since March 2007. (DSE 2007). That means that only a few businesses are liquid. The majority of potential investors have no understanding of, or are unaware of, ZSE's business or activities.

Easy access to information about listed companies by local and foreign investors, according to Zervos and Levine (1996), is favorably associated with the development of the stock exchange market and sustained participation of investors. Because many companies are afraid or refuse to join the market in order to avoid exposing their accounting statements to public scrutiny, the accounting requirement has been a barrier for more companies to be listed on stock exchanges. Many private companies take advantage of weak laws and inadequate law enforcement to tinker with taxes and accounting books. Initial costs of preparing a company's legal affairs and financial accounts have been a barrier to entry for enterprises, both international and domestic.

A stable macroeconomic climate is critical for the stock market's growth. Macroeconomic volatility exacerbates the problem of informational asymmetry and exposes the financial sector to risk. Inflation rates that are low and predictable are more likely to contribute to stock market and economic growth. Both domestic and foreign investors will be hesitant to engage in the stock market if high inflation is expected. Sound macroeconomic settings and sufficiently high income levels – GDP per capita, domestic savings, and domestic investments – are major predictors of stock market development in emerging nations, according to Garcia and Liu (1999). The extent of shareholder protection in publicly traded corporations, as stipulated in the Securities Exchange Act of 1934, is another important factor of stock market development and shareholder retention.

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Institutional Excellence

Because efficient and responsible institutions tend to broaden appeal and trust in equity ownership, institutional quality is vital for stock market development. As political risk is resolved over time, equity investment becomes more appealing. As a result, the emergence of high-quality institutions can influence the attractiveness of equity investments and lead to the growth of stock markets. Good quality institutions, such as law and order, democratic accountability, and bureaucratic excellence, are essential determinants of stock market development in Africa, according to Yartey (2007), since they lower political risk and improve the viability of external finance.

In well-functioning stock markets, the real operation of pricing and takeover mechanisms results in higher short-term and lower long-term investment rates. It creates perverse incentives by rewarding managers for financial engineering achievement rather than organic wealth creation (Singh) (1997) [10]. This is because prices react swiftly to a range of information that influences financial market expectations. The stock market's prices are notoriously volatile, allowing for quick profit margins. Because the stock market undervalues long-term investments, managers are discouraged from making them because their actions are judged by the success of a company's financial assets, which can harm a company's long-term growth prospects (Binswanger) (1999).

Some argue that very liquid markets can lead to investor myopia. This is because disappointed investors can sell fast in liquid markets. Investor commitment and incentives to exert corporate control through overseeing management and analyzing firm performance and potential might be reduced by liquid markets. Stock market liquidity, according to Stiglitz (1993) [11], does not create incentives for gathering knowledge about firms or enhancing corporate governance. According to Shliefer and Summers (1988), stock market development can stifle economic growth by encouraging inefficient corporate takeovers.

Political ramifications

Political uncertainty, unfavorable economic policies, and the threat of a worsening of the business climate in several African countries have aided the fall in public confidence and resultant poor stock market performance. Apart from the JSE, Casablanca, and Cairo stock markets, most of the new African stock exchanges lack appealing and various forms of securities to offer foreign investors. The demand for and supply of equity in stock markets has been restrained in most African countries due to low savings. Poverty, war, political turmoil, and disease have forced a huge section of the African population to live on less than $1.00 per day, limiting their ability to save. Low disposable incomes of the local populace also affect demand for assets on African stock exchanges. Market risk perceptions, high tax rates, the attractiveness of capital market yields compared to alternative investment products, macroeconomic instability, public confidence in the financial sector, banking sector developments, institutional quality, and shareholder protection are all factors to consider.

African Stock Markets Overview

In the 1990s, most stock exchanges sprung up across Africa. Through privatization processes, diversification of financial services, facilitation of long-term capital mobilization, provision of alternative investment opportunities, private sector need for funds, attraction of foreign capital inflows, and serving as a signal of overall macroeconomic performance, Africa's stock exchanges have aided economic development. The rapid growth of stock exchanges in Africa is largely due to countries' views of stock exchanges as a crucial strategy for building national and regional economies.

Despite their widespread existence, most African stock markets are still constrained. Political instability, volatile economic growth, macroeconomic uncertainty, a small number of indigenously listed companies, a low level of listings, market dominance by a few large firms, limited institutional and government trading, low market capitalization, infrequent trading, limited trading time, small average company size, low liquidity levels, a limited domestic investor base, underdeveloped trading systems, and a slow clearing and settlement system are among them. Local pension funds, banks, and insurance companies frequently hold the finest shares since they have few other assets to invest in with the sale proceeds. Furthermore, regulatory oversight is frequently insufficient.

Despite the fact that African stock markets have continuously grown in terms of market capitalization and number of listings, most have yet to reach the globally suggested benchmarks for attracting major foreign involvement from global emerging market funds (World Bank, 2006).

The stock exchange market's impact on the economy

Because of the perceived value it gives to the economy, economists and policymakers are paying attention to the stock market. The stock market, according to Obadon (1995), serves as a fulcrum for capital market activity and is frequently used as a barometer of company direction. The stock market index can be used to track changes in general economic activity if the stock market is active. The stock exchange market is a marketplace for publicly traded securities. That is, it allows those who want to join listed firms to do so, as well as those who want to leave (DSE, 2010).

The stock exchange market, according to ZSE (2010), supports privatization and wider ownership of resources. The ZSE has assisted and continues to facilitate the privatization of various government-controlled parastatal organizations whose shares were sold by the government through ZSE. Risk diversification is a function that is closely related to liquidity. When stock markets are globally integrated, they can have an impact on economic growth. This allows for more risk sharing. Risk diversification in the stock market stimulates a shift to higher-return projects (Obsetfeld, 1994).

The stock market, according to Financial Gazette (2014), provides an additional channel for encouraging and mobilizing domestic savings for productive investment as an alternative to bench deposit real estate investment and consumer loan financing. Equity financing provides a cushion for businesses against the volatility of cash flows and even possible losses: it is a long-term financing that does not require a regular fixed return like debt.

Risk diversification is a function that is closely related to liquidity. When stock markets are globally integrated, they can have an impact on economic growth. This allows for more risk sharing. Because high-return projects are more hazardous than low-return projects. Risk diversification in the stock market stimulates a shift to higher-return projects (Obsetfeld, 1994). The upshot is an increase in the economy, which leads to growth and a shift in society from saving to higher-return investments. According to OECD (1990), the stock market serves as a supplementary avenue for stimulating and mobilizing domestic savings for productive investment, as well as an alternative to bench deposit real estate investment and consumer loan financing.

According to Greenwood and Smith (1997), stock market components of the financial system play an essential role in the effective allocation of resources, which aids specialization, lowers the cost of mobilizing savings, and leads to faster economic growth. According to Levine (1996), stock market liquidity both supports and precedes economic growth. Some scholars have gone so far as to claim that both stock markets and banks are required for economic growth (Boyd and Prescott (1986); Boyd and Smith (1998); Blackburn *et al*. (2005)). They see stock markets as complements to banks rather than replacements. On the other hand, there are empirical studies that argue that the stock market has little impact on economic growth since the liquidity it provides can be harmful. According to Arzarmi *et al*. (2005) [1], several academics have discovered no link between stock market development and economic growth. According to Singh (1997) [10], stock markets do not lead to long-run economic growth because of macroeconomic instability, volatility, and pricing arbitrariness. Equity financing provides a cushion for businesses against the volatility of cash flows and even possible losses: it is a long-term financing that does not require a regular fixed return like debt. By promoting equity financing, the stock exchange market helps to enhance the gearing of the domestic corporate sector, reducing corporate reliance on borrowing and strengthening the financial system.

According to DSA and CMSA (2010), the stock exchange market helps businesses raise money by allowing them to sell fresh shares or bonds at cheaper prices, lowering their cost of capital and increasing their profits. Furthermore, the Stock Exchange Market facilitates the disclosure requirement, which requires listed businesses to promptly disclose any price sensitive information in order for investors to make educated decisions (DSE 2008).

Inflation, employment, and the gross domestic product are examples of macroeconomic factors. If a country's macroeconomics are sound, which includes low inflation, full employment, and high national income, the value of its stock market will rise since most citizens will be able to buy stock on the stock exchange. As a result, the country's economic growth will accelerate. However, if macroeconomic conditions are poor, such as high inflation, high unemployment, and low national income, most citizens will be unable to purchase shares, causing the stock exchange market's value to decrease, resulting in uneconomic growth.

According to Singh (1997) [10], the stock market is predicted to boost economic growth by raising domestic savings, investment quantity, and quality. It is supposed to encourage people to save by providing them with a new financial instrument that better suits their risk preferences and liquidity requirements. Levine and Zervos (1998) suggest that better savings mobilization can boost saves rates. Growing businesses can use the stock market to raise financing at a lesser cost. Companies in nations with developed stock markets are less reliant on bank loans, lowering the danger of a credit crunch. As a result, the stock market can have a positive impact on economic growth by promoting individual savings and creating opportunities for business funding.

Improving foreign investment in Zimbabwe's stock exchange

The majority of foreigners, as well as Zimbabweans, have no understanding of or are unaware of ZSE's operations and activities. As a result, the policy question is what can be done to promote foreigner participation and retention on the Zimbabwe stock market. According to the literature, a well-developed banking sector, a stable macroeconomic environment, shareholder protection, and transparent and responsible institutions are all required preconditions for the efficient operation of African stock markets. Easy access to information about listed enterprises by local and foreign investors is favorably associated with the development and efficient operation of the stock exchange market, according to Zervos and Levine (1996).

The term "trade openness" refers to the admission of international corporations into the exchange's local market. As a result of this introduction, the market will be able to raise the number of equity shares in the stock, resulting in a higher market capitalization. Clearly, the market's value will rise, and economic growth will be achieved. However, if there is no trading openness within the stock exchange, the stock's value will fall, and there would be no economic growth.

A stable macroeconomic environment is required for stock market development, and an effective monetary policy, coordinated by a solid fiscal policy of a balanced budget, will deliver it. That is, stock price swings are tangentially tied to the rate of economic growth. As a result, measures should be made in such a way that stock prices do not fluctuate excessively. This will contribute to macroeconomic stability as well as stock market growth (Fama, 2013). The government should place a priority on removing any barriers to the stock exchange's growth and development, particularly any regulatory barriers that may function as a deterrent to investment. Any aggressive practices by market interest of shareholders should be checked and avoided by the capital market regulator.

A stock market's performance is greatly dependent on peace and political stability. As a result, if stock markets are to contribute meaningfully to economic recovery, growth, and attracting international participation, they must be promoted. In countries that are experiencing political conflicts, political resolutions must be achieved through constitution-making, tolerance, and mediation processes. Political and economic developments have a strong impact on the stock market, which has an impact on investor confidence. As a result, greater investor confidence is required, or conditions that destroy investor confidence must be avoided (Cresswel, 2012).

Educating the public refers to ensuring that the general public is aware of the stock exchange market's role and activities. If the general public is aware of the stock exchange's role, benefits, and activities, they will be more likely to purchase shares, increasing the stock exchange's value and contributing to economic growth. The term "automation" refers to the use of information and communication technology (ICT) in the stock exchange market. As a result, the majority of stock exchange market activity will be conducted using advanced technology. As a result, the stock exchange market will boost productivity while also saving money and time. As a result, the value of the stock exchange will rise, resulting in increased economic growth in the country. The term "transaction cost" refers to the costs that are incurred during a transaction. If the cost of stock exchange operations is too high, the value of the stock exchange market would fall, limiting economic growth; however, if the cost of stock exchange operations is too low, the value of the stock exchange market will rise, allowing economic growth to occur.

Studies that are related

According to Levine and Zervous (1993), stock market development is closely connected with real GNP per capita growth rates. More crucially, they discovered that when stock market liquidity and banking development both enter the growth regression, they both forecast the economy's future growth rate. They came to the conclusion that stock markets provide services that are distinct from those supplied by banks. Stock exchanges, on the other hand, are predicted to boost economic growth by enhancing financial asset liquidity, making global risk diversification easier for investors, and encouraging better investment decisions. The author, on the other hand, did not demonstrate how the stock exchange market stimulates economic growth through the security markets or the involvement of foreigners in stock exchange markets.

Obstfed (1994) demonstrates how international risk sharing via globally interconnected stock markets enhances resource allocation and accelerates growth. He also stated that stock market liquidity, or the capacity to trade freely, is important for economic growth, despite the fact that good investments need long-term capital commitments, and savers prefer not to give up their savings for lengthy periods of time. Yet, according to Kyle (1984), an investor can profit from analyzing a company before the knowledge becomes widely available and the price changes. As a result, investors will be more likely to research and track companies. The better information will improve resource allocation and accelerate economic growth to the extent that larger, more liquid stock markets raise incentives to study enterprises.

In their study on capital market development and growth in Sub-Saharan Africa, Ziorkhui *et al*. (2001) focused on Tanzania. The goal of their research was to look at the numerous issues that impede the development of a functional capital market. Various hypotheses were tested using parametric statistical analysis. The study discovered that policy changes in Tanzania had a good and challenging impact on capital market development, and that Tanzania enjoyed economic growth in normal terms from 1986 to 1998. Using annual time series data from 1980 to 2002, Adebiyi (2003) experimentally explores the directions of causality between an index of industrial production and key measures of progress in the Nigerian stock market.

Findings and Discussion

Factors influencing withdrawal of foreign investors from the local stock market

Table 1: Factors behind the withdrawal of foreign participants

Factor	Frequency	Percentage
Macro-economic Instability	52	100
Liquidity challenges	51`	98.08
Transparency and Accountability	15	28.85
Political environment	30	57.69
ZSE listing rules and requirements	9	17.31
Lack of investor confidence	48	92.31
Weak total demand for goods and services	11	21.15
Lack of awareness	23	44.23
Lack of Trade Openness	11	21.15
Low market capitalization	18	34.62

According to Table 1, 100 percent of respondents believe macroeconomic volatility is the most significant barrier to foreigners participating in the local market. Inflation, unemployment, real income, and saving rates are all indicators of macroeconomic instability. Illiquidity is the next most important factor (98.08 percent). This is due to a shortage of cash in circulation in Zimbabwe, which results in a lack of everyday trade and, as a result, a lack of liquidity on the stock market.

One of the key explanations mentioned for the withdrawal of foreigners from the local market (57.69 percent) was the political environment. One of the key political causes stated as causing the migration of foreign players is the 2018 harmonized elections. Other political factors included the government's policy inconsistency, which was blamed on political wrangling among politicians inside the ruling party. Lack of openness and accountability (good cooperative governance) is the fourth obstacle that prevents foreigners from participating in the local market, accounting for 68.18 percent. Corruption and poor governance of those charged with managing the stock exchange are major issues in Zimbabwe, as they are in other African countries. Lack of investor confidence (92.31 percent) was listed as the fifth cause, which was considered to be a result of all of the other challenges in table 4.4, with economic uncertainty being the most significant.

Lack of awareness is the sixth most common barrier to international participation, accounting for 44.23 percent. The majority of foreigners and Zimbabweans do not comprehend or are oblivious of the stock market's operations. One of the stumbling hurdles to foreigners' expanded and ongoing participation in the Zimbabwean stock market has been a lack of understanding among businesses and individuals about the stock exchange's functioning.

Another issue that prevents foreigners from participating is accounting rules, which account for 40.91 percent of the total. Financial requirements have been a key roadblock for companies seeking to list on the ZSE, since many companies are hesitant to join the market for fear of having their accounting books scrutinized by the public. Many foreign-owned private enterprises in Zimbabwe take advantage of weak legislation and insufficient law enforcement to escape taxes and accounting books, and as a result, most of these companies do not want to expose themselves to public scrutiny after registering on the Zimbabwe Stock Exchange (ZSE).

Other issues cited by the responder as contributing to the mass exodus of foreign participants include a lack of skilled and educated human resources in the ZSE, low market capitalization, and a lack of trade openness, as there are no foreign companies listed on the ZSE. Manual trading on the ZSE, on the other hand, was not justified as a barrier to foreigners entering the country, since the results from respondents fell below 50%. This is because the ZSE is already automated with ICT, despite the fact that it was previously not mechanized.

The study determined that illiquidity, macroeconomic instability, a lack of awareness, accounting requirements, a lack of sound governance, and politics are among the primary contributing variables. Cohn (200), in support of the perspective on illiquidity, said that the lack of a substantial number of listed firms is a major cause of daily trading capacity and, as a result, a lack of liquidity with the stock. Aside from the tiny number of listed firms, only a few stocks are regularly traded in the African stock market, and hence only a few stocks have an impact on market capitalization. Furthermore, due to a lack of US currency, Zimbabwe has been experiencing a liquidity crisis, which has restricted foreigners' continued involvement on the local stock exchange.

Supporting the point of view that there is a lack of public awareness Kibuthu (2005) is a researcher that focuses on the capital market in emerging economies. Public knowledge was discovered to be one of the elements affecting the Nairobi stock exchange. Lack of awareness and effective education were identified as important challenges for the growth of the Ghana stock exchange and effective involvement of both locals and foreigners by Osei (1998), who studied the factors affecting the development of emerging capital markets in the case of Ghana. According to a study conducted by Yartey (2005) on the Ghana Stock Exchange, 33 percent of firms surveyed were afraid to list on the exchange for fear of losing control.

During the research interviews, one of the interviewees had this to say:

"*all domestic and international market information is absorbed by capital markets, and stock market prices are driven by information and based on the supply and demand of securities." The performance of macroeconomic factors has a significant impact on all of these variables... Price fluctuations, on the other hand, determine the return on stocks, which, when totaled, determines the market return. Resultantly, all these affect the participation of foreigners as well as the locals in our stock marke.”*

In light of macroeconomic instability, Garcra (1999) asserted that "overall macroeconomic stability may well be an important component for stock market development." This is because the state of the economy either attracts or repels involvement in the stock market by both locals and foreigners. In their study of the growth of the global stock market, Yartey and Komia (2007) concluded that a stable macroeconomic environment is critical for the stock market's development. In an interview with IPS, Mc Gregor (2008) stated that accounting requirements are one of the reasons why corporations are hesitant to join stock exchanges.

The level of shareholder protection in publicly traded corporations, as defined in securities or company legislation, is another important driver of foreign participation in the stock market (Shleifer and Vishny, 1997). Respondents in this study recognized a lack of investor protection as one of the contributing factors to foreign participants' withdrawal from the local market, agreeing with Shleifer and Vishny (1997). Foreign participation is more likely in countries with robust shareholder protection because investors are less concerned about expropriation. Furthermore, in such marketplaces, ownership can be spread, providing liquidity to the market. La Porta *et al*. (1999) use metrics of the quality of 25 shareholder protection as evidence for the relevance of minority rights protection.

The role of stock market in the economy

Table 2: Roles of stock market in the economy

Role	Frequency	Percentage
Risk diversification	33	63.64
Equity financing	45	86.36
Market Capitalization	26	50
Economic growth	52	100
Allocation of resources	47	90.91
Corporate governance	38	72.73

The stock market appears to play numerous functions in the economy, as seen in Table 2. According to the data, 100 percent of the respondents believe that the stock market contributes to economic growth. The allocation of economic resources (90.91 percent) is then followed by the distribution of wealth among the population. The stock mark*et al*so benefits businesses by allowing them to raise capital through equity financing (86.36 percent). The capital structure of the respective organizations is aided by this equity investment. Almost 79 percent of them have confidence in the services provided. Corporate governance was mentioned by nearly 73 percent of those polled as another role of the stock market in the economy. This is accomplished by the ZSE's oversight of companies listed on the market, as well as responsibility.Risk diversification (63.64 percent) and market capitalization were the other stock market roles mentioned (50 percent).

When asked about the stock market's function in the economy, one of the roles mentioned was corporate governance. "*the regulatory job of stock exchanges comprises the issuing of rules and clarifying aspects of the existing framework," one research participant said in his response. Stock exchanges have a standard-setting role primarily through the issuing of listing, ongoing disclosure, maintenance, and de-listing criteria..... Stock exchanges have shared their regulatory duty with the SECZ, the capital market supervisory body stock exchanges are tasked with ensuring that legislation and related securities regulations are followed. As a result, the economy is more disciplined."*

DLA Piper (2008) validated this viewpoint in their study paper "International Capital Markets Survey." Given the banking sector's existing shortcomings in mobilizing long-term financing, there is potential for the ZSE to capitalize on its potential to mobilize long-term finance (Equity 86.36 percent). Because it is open to foreign investors, the ZSE can raise funds from outside sources. It has the potential to be a dependable indicator of the economy's GDP levels. Given that the period of underground investor speculation has passed, the ZSE's activity is more likely to reflect economic fundamentals and the actual performance of the listed companies. The ZSE is projected to have a positive role in the rehabilitation and expansion of the economy (economic growth 100 percent).

It should allow for risk diversification (63.64 percent), the acquisition of company knowledge, efficient fund allocation, and management compensation tied to stock performance. Aside from the inflow of financial resources, integrated capital markets allow for market risk diversification on a global scale. Given the banking sector's current weaknesses and vulnerabilities, such as nonperforming loans (5 percent of total bank loans in June 2016), the predominance of short-term deposits, and the high cost of short-term finance, the ZSE is expected to supplement the banking sector by mobilizing long-term capital for allocation (resource allocation 90.91 percent) to the private sector, which is critical for investment.

Meanwhile, the stock market's aforementioned functions are consistent with the concerns stated by ZIPERU (2011) [12] in his study "Does the stock exchange have the potential to foster economic growth in a multi-currency system?" The findings are theoretically supported by fundamentalist ideas, which hold that the stock market will promote economic growth by raising domestic savings, quantity, and quality of investment (Singh 1997) [10]. It is supposed to encourage people to save by providing them with a new financial instrument that better suits their risk preferences and liquidity requirements. Levine and Zervos (1998) suggest that better savings mobilization can boost saves rates. Growing businesses can use the stock market to raise financing at a lesser cost.Growing businesses can use the stock market to raise financing at a lesser cost. As a result, the stock market can have a positive impact on economic growth by promoting individual savings and creating opportunities for business funding.

Concerning the function of risk diversification, this concurs with Bencivenga and Smith (1991) [3], who claimed that stock market liquidity minimizes the downside risks and costs of investing in long-term projects. Because they can readily, swiftly, and cheaply sell their ownership in the company in a liquid market, original investors do not lose access to their savings for the duration of the investment project. More liquid stock markets could make it easier to invest in long-term, potentially more profitable initiatives, boosting capital allocation and improving long-term economic growth prospects.

Ways of improving the participation of foreign investors in the stock market

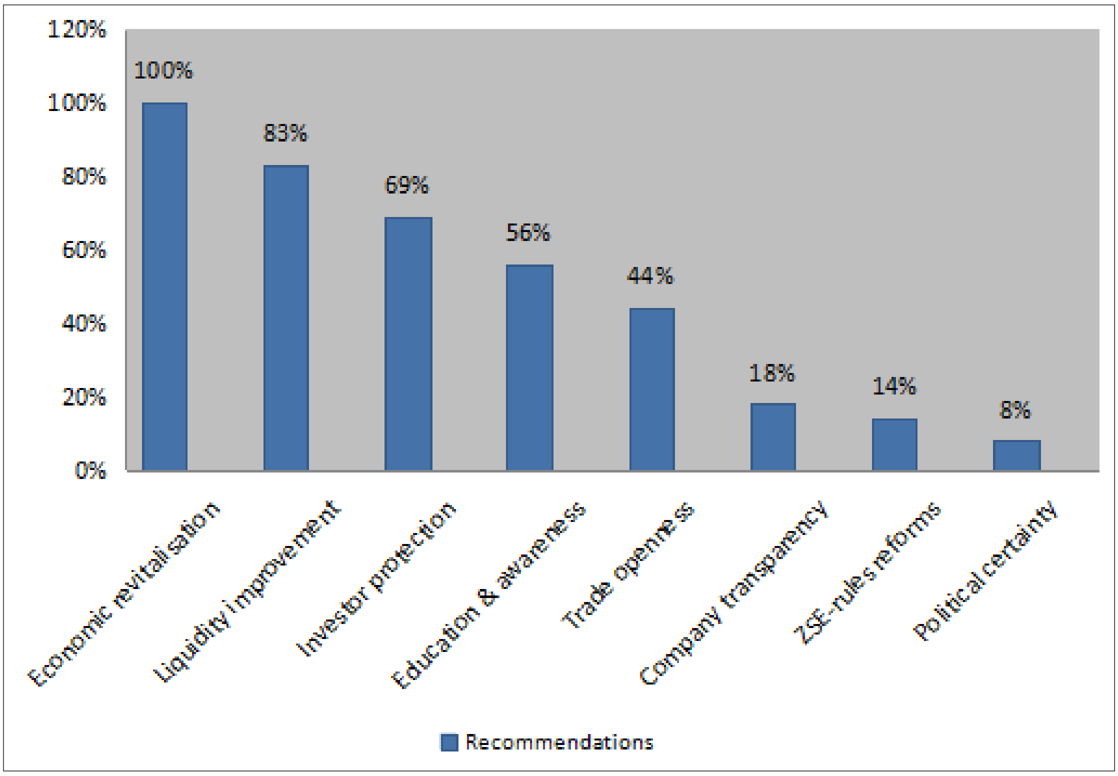

Fig 1: A bar graph of recommendations

Figure 1 shows the responses of the sampled respondents to items assessing their views on strategies to improve foreign participation in the stock market in general. Figure 1's data raises a number of significant questions. The three (3) most prevalent ideas for increasing foreign participation in the stock market are worth noting. The first is that of economic revitalization (100 percent). The improvement of liquidity (83 percent) is the second most popular recommendation, while investor protection (69 percent) is the third most popular. Education and awareness (56 percent), trade openness (44 percent), accounting transparency (18 percent), ZSE listing rules and requirements improvements (14 percent), and political certainty (8 percent) were the other strategies to improve foreign participation in the local stock market.

When asked what should be done to keep foreign investors on the stock market, all of the research participants (100%) said that economic revitalization and stabilization were the most important recommendations. This was in line with Srikanth and Kishore (2012), who claimed that international investors are attracted by the host country's economic stability, projections of its growth potential, and the host government's proactive policies promoting foreign investment, privatization, and favorable taxation. They go on to say that countries with higher domestic interest rates relative to external interest rates, as well as stable exchange rates, attract international portfolio flows. External variables, such as group or 'herd' mentality in international capital markets, are also cited by (Enika, 2011).

Contrary to popular belief, a stable economy attracts foreign investors to the stock market, according to Frankel (2011), established economies have seen near-zero interest rates and reduced economic growth rates since 2008, prompting investors in those countries to invest in emerging markets. He goes on to say that, as a result of the financial sector's globalization, a major portion of foreign investor activity in emerging markets may be traced back to financial shocks in developing countries.

Participants in the study also suggested that liquidity be improved. One participant had this to say in response,

"*….the maintenance and liquidity improvement of dollarization is critical since it can help in stabilizing inflation and interest rates…..it also reduces conversion fees and the risk of devaluation for foreign participation on the local bourse….the credibility and predictability bring about by adequate circulation of the US dollar promotes foreign investment….the introduction of bond notes cannot achieve that, except the opposite…..*".

Liquidity, according to Biyan (2012), is an index that is used in the stock exchange market and refers to the ability of investors to acquire and sell assets quickly. He went on to say that liquidity is a critical signal for stock market development, and that it is one of the variables that investors analyze before deciding to invest in the stock market.

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