

CAPITAL MARKETS OPERATIONS SUBCOMMITTEE

Theme

The creation of a vibrant capital market industry, which will facilitate the access to capital by the private sector and the government, and hence enable it to play an effective role in the development of the economy.

Situation Analysis

The Capital Market and Securities Act of 1994 established the CMSA (Capital Markets and Securities Authority) and mandated it to promote and develop a Capital Market which is efficient, fair and equitable to all. It became operational in 1995. Since its establishment the Authority has put in place the legal and regulatory framework, has licensed different Market Players, has established the Stock Exchange, and has approved several Public Issues in equities and bonds and collective investment schemes.

Main Characteristics of the Capital Market

The Capital Market industry in Tanzania is at a nascent stage of development operating with financial systems still being developed. Despite the noticeable modest achievements there are a number of challenges confronting the growth and deepening of our capital markets. The private sector is dominated by family owned companies. The Stock Exchange has only a few products and it is not liquid enough. Foreign participation in the Stock Exchange is allowed up to 60% of the share holding since 2003. Companies from the East Africa Region can cross list on the Dar es Salaam Stock Exchange, but there is insignificant activity, if at all, in the cross listed equities. Both Initial Public Offering (IPO) and Secondary Market Operations have high transaction costs and there is an inadequate number and variety of market intermediaries. Listing shares by foreign companies operating in Tanzania is hampered by the fact that there are no mechanisms to induce foreign companies in Tanzania to list at DSE.

Several initiatives have been taken to address the above challenges. Such measures are expected to result into attracting issuers, increase products in the market, create liquidity, prepare for regional capital integration, reduce transaction costs and create a new segment - Enterprise Growth Market. A proposal for

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looking into the feasibility of establishing a Commodities Market by the Private Sector should also be looked into.

The matrix below presents in summary, key issues, actions taken so far and recommended interventions to be taken by responsible institutions in an effort to develop vibrant capital markets in Tanzania.

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ISSUES	CHALLENGES	ACTION TAKEN	RECOMMENDED ACTION TO BE TAKEN	RESPONSIBILITY	TIME FRAME
<p>1.</p> <p>ATTRACT ISSUERS TO RAISE FUNDS THROUGH THE CAPITAL MARKET</p>	<p>There are only a few companies that have come to the market by way of raising funds in the form of equity and bonds. The rest of the listed local companies came to the Exchange by way of privatization/share transfer of Government shareholding to the public in IPOs. The big companies listed at the Exchange rely on private borrowing and financing by way of reinvestment of retained earnings</p>	<p>Government approved the following incentives for listed companies</p> <p>a) 25% Corporate income tax rate for listed companies instead of 30% for a period of 3 years if a company issues at least 35% of its shares to the public and list at the DSE</p> <p>b) IPO costs are tax deductible</p> <p>c) CMSA and DSE have been</p>	<p>a) Issuers pay Corporate tax at the rate of 20% for a period of 5 yrs instead of 3yrs as it is in Kenya as an incentive and for the purpose of harmonization at the regional level</p> <p>b) A company that is ready to go public should not be reviewed for prior period tax obligations (tax amnesty) if done with in 3 years from date of amnesty announcement</p>	<p>(MOFEA)</p> <p>MOFEA</p>	<p>Effective 2009/10</p> <p>Effective 2009/10</p>

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	instead of opting for public issuance of equity and or bonds	sensitizing companies to raise capital through the capital market.			
	<p align="center">Listing</p> <p>Requirements are seen as too stringent for some potential companies to comply with</p>	<p>.</p> <p>a) Amendments of Act submitted to Treasury for eventual submission to Parliament</p> <p>b) Regulations ready for EGM and nominated Advisors for approval by MOFEA</p> <p>c) Public Education programme under FSP</p>	<p>To operationalise the Enterprise Growth Market for Small and medium enterprise and start ups.</p> <p>a) To complete the regulatory framework for EGM market.</p> <p>b) License Nominated Advisors</p> <p>c) Continue to sensitize potential issuers</p>	<p>CMSA/DSE/ MOFEA</p> <p>CMSA</p>	<p>June 2009</p> <p>April 2009-03-05</p> <p>Continuous</p> <p>May/June 2009</p>

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ISSUES	CHALLENGES	ACTION TAKEN	RECOMMENDED ACTION TO BE TAKEN	RESPONSIBILITY	TIME FRAME
		on-going for potential issuers and investors	d) Continue discussions with potential sponsors in the EGM for technical and financial support	CMSA/DSE CMSA	Continuous
	Reduce IPO costs. In earlier IPOs some IPO costs were fixed and refund costs high due to substantial oversubscriptions and inefficient refund procedures and processes	a) Issuers now at liberty to negotiate fees payable to IPO Professionals. b) Mechanism for refunds options considered and agreed at time of IPO to minimize refund costs and time. c) Study IPO costs conducted and recommend costs not	Explore underwriting and book building alternatives in some IPOs. Sensitise issuers on need of monitoring IPOs costs Continue monitoring of IPO costs	CMSA/DSE CMSA/DSE CMSA	2009/10 Continuous Continuous

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		to exceed 6% of IPO value. IPO costs to be fully disclosed in Prospectuses	Continue sensitizing potential issuers on ways to minimize IPO costs.		
	Reduce IPO discounts. Government has been giving big discounts on public sale of its shares in companies. Consequently Private Sector shys away to go public since can't offer such discounts which lead to artificial capital appreciation. This also leads to Government losing revenue	Government has been advised to avoid such big discounts and did so for NMB.	Sensitize Private Companies that action has been taken	CMSA/MOFEA/ DSE	Continuous
INCREASE NUMBER OF PRODUCTS IN	Products in the market include equities, government bonds and				

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<p>THE MARKET</p>	<p>corporate bonds. They are still few in number. There is a need to promote/launch new products</p> <p>a) Increase the number of listed companies in the current main market segment (current DSE) by requesting Government to sell its shares in profitable privatized companies</p> <p>b) Create Enterprise Growth Market to be established under DSE</p>	<p>a) Treasury has been requested to release shares in qualifying companies</p> <p>Companies such as NBC, ALAF, ZAIN and TTCL who are potential candidates. There are also others.</p> <p>b) Enterprise Growth Market (EGM)</p>	<p>Government to give a policy stand on this since some of the companies involved are ready to come to the market.</p> <p>Complete preparation for launching</p>	<p>Finance Working Group/MOFEA/DSE/Privatized Companies/CMSA</p>	<p>2008/09 onwards</p>

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	<p>c) Establish a Municipal bonds market</p> <p>d) Strengthen the market place for bonds</p>	<p>To be launched in June 2009</p> <p>c) Municipal Bonds: Phase I of study to examine feasibility of issuance of Municipal bonds under way - financed under FSP.</p> <p>d) A study by ESMID has looked at</p> <ul style="list-style-type: none"> - trading of bonds (liquidity), -reduction of transaction costs - improve regulatory framework for bonds - promote Credit Rating - Introduce Primary 	<p>EGM</p> <p>a) Implement the recommendations of the study when completed</p> <p>b) Commence Phase II involving putting in place policy and regulatory framework for Municipal Bonds</p> <p>c) Strengthen the Management and Accountability of Municipalities</p>	<p>CMSA/DSE/ MOFEA</p> <p>CMSA/Consultant DSE/MOFEA/PMO</p> <p>CMSA/Consultant/MO FEA/PMO</p> <p>CMSA/DSE</p>	<p>June 2009</p> <p>Phase1 June 2009</p> <p>Phase 2 2009/10</p> <p>2009/10</p>

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	<p>e) Introduce of issuance Infrastructure Bonds</p> <p>The Government should explore the opportunity to raise resources for financing infrastructure by issuing infrastructure bonds in the domestic capital market.</p>	<p>Dealers</p> <p>e) A study at the Regional level being done by a Consultant. funded under ESMID</p> <p>Treasury looking into this option which we think is feasible.</p>	<p>Introduce Over Counter (OTC) for secondary trading of bonds</p> <p>Prepare Regulations to commence OTC</p> <p>License Credit Rating agencies</p> <p>Complete the Study and consider recommendations. We should aggressively pursue this option and commence implementation in</p>	<p>CMSA</p> <p>CMSA</p> <p>BOT</p>	<p>May 2009</p> <p>2009/10</p> <p>2009/10</p> <p>June 2009</p>

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	<p>f) Promote Venture Capital Funds</p> <p>g) Study the potential of issuing Agricultural Bonds - experience of similar countries</p>	<p>Recommending putting in place regulatory framework for Venture Capital Companies</p> <p>Not yet</p>	<p>2009/10 budget</p> <p>Propose incentives given to issuers - experience of Kenya that has just issued an infrastructure bond could be useful.</p> <p>d) Put in place regulatory Framework</p> <p>e) Propose incentives i.e. as in Kenya</p> <p>Study other countries including incentives offered.</p>	<p>MOFEA/CMSA/ DSE</p> <p>CMSA/MOFEA/TNBC /TCIIA</p>	<p>Include in 2009/10 budget</p> <p>2009/10</p>

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				CMSA/DSE/ Ministry of Agriculture	2009/10
CREATE A COMMODITIES MARKET	Tanzania is endowed with cash crops (cotton coffee, sisal, tea etc) and natural resources including diamonds, gold, and Tanzanite. A commodities market could be established and we need to seriously look into this. Though not under the purview of CMSA, Government be advised to look into this	A Private Sector Group has indicated interest and approached CMSA for guidance. This should therefore be private sector driven and government to provide enabling environment Phase I to involve "Commodity Trading". Only the derivatives component not considered at this time.	Encourage the Private Sector Group to submit a working paper on this to trigger the discussion process. Government to form a task force including Ministries of Agriculture , Trade and Industry, MOFEA and Minerals and CMSA to work with the Private Sector Group. As proposed by TNBC Executive Committee, policy to consider processing for some commodities versus export of raw products be taken into consideration	Government Government	June 2009/10 2009/10

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E.A CAPITAL MARKETS INTEGRATION	The main challenge has been the identification of the appropriate model for the E.A regional capital markets integration	A study commissioned by ESMID has proposed the Model which calls for three phases in the process of capital markets integration. Phase 1: January 2009 to June 2010 Phase 2: July 2010 to June 2012 Phase 3: July 2012 to June 2014	Approvals of the integration model to be approved at both the national EAC levels following the recommendations of the regional Stakeholders including Regulators, Exchanges etc. Proposed Phase I to be rescheduled since approvals at national and regional levels have not been obtained.	CMSA/DSE/EAC/ MOFEA	By June 2009
The nation is facing Pyramid Schemes problem. These can cause chaos	a) Timely action to stop these Schemes is required.	Penal Code amended to include establishment of Pyramid Schemes as criminal offence	a) Public be informed by participating in Pyramid Schemes as criminal offence	DPP/DCI/CMSA	Immediately since there are some schemes going on now

