

A capital Solution to our Challenges

As a country we have a lot of opportunities to fast track our broader and an inclusive development as set out in our vision 2015 – this is despite challenges. Some of the opportunities can be maximized by unlocking our “people” potential – our skill and competences base, our morals, our exposure, our ambitions, our aspirations and our courage to properly think and timely take the necessary action. This is much so, because, we – the people – have the capability to largely determine and influence events, actions, activities, our destiny and the destiny of other aspects surrounding us.

As we learnt last week, our ranking in Global Competitive Index Report for 2013 is at 125th out of 148 economies that participated in the ranking -- this implies that our drivers of productivity and prosperity are still relatively weak.

As spelt out in our Vision 2025, our ultimate goal is to create a vibrant and competitive economy that will promote us, as a country, into the middle class category by 2025. The 2025 vision’s main attributes are: (i) high quality livelihood for Tanzanians; (ii) peace, stability and unit; (iii) good governance; (iv) a well-educated society; and (v) a competitive economy capable of producing sustainable growth and shared benefits. As is, we are beyond half way towards bringing into fruition our vision, BUT are we closer in living to expectations spelt out in the vision?

Last week I tried to explain how, well sourced, properly and responsibly managed forms of capital might be part of solution to our challenges towards improving our ranking but ultimately in living to our expectations. I believe that we must spearhead the growth of capital market in order to bring about its contribution to facilitate the achievement of our shared vision, it is through this mechanism that local enterprises can realize their full potential, by accessing an efficient, effective, reliable and reasonably priced capital. In the process of capital formation, our pension funds, insurance companies, and other professional and retail investors – could also and easily be more motivated to be a substantial players in the capital formation and capital market development.

Let us go again into looking the forms of capital and especially the bonds components. Dar es salaam Stock Exchange, like other stock exchanges provides a platform for capital raising and in the process provides services for stock brokers and traders to trade securities that are listed. Stock exchanges also provide facilities for issue and redemption of listed securities and other financial instruments. Securities traded on a stock exchange include stock issued by companies, unit trusts, derivatives, pooled investment products and bonds.

In our country, Government bonds accounts for 98% of all listed bonds and only 2% are corporate bonds. We do not have municipal bonds, mortgage based bonds or other forms of bonds. Benchmarking our bond market to economies like the U.S.A: treasury bonds makes just about 30% of the total bond market, corporate bonds 25%, mortgage related bonds 20%, municipal bonds 10% and other forms of bonds 15%.

- So, we know that there are different types of bonds and they are actively used in other markets, we also know that in Tanzania, the bonds market is currently dominated by Government bonds - where the Bank of Tanzania issues Government bonds in the primary market for (i) raising finances to support implementation of Government projects and (ii) to maintain price stability that contributes to achieve macroeconomic stability. What types of bonds tare relevant to our market? At least four, given our level of development and sophistication:
- **(i) Government bonds**, also called Treasury bonds, these are issued by the central government and are not exposed to default risk. They are characterized as the safest bonds, due to lower level of risks attached into them, they also offer the relatively lowest interest rate.

Treasury bonds are backed by the “full faith and credit” of the government. For that reason, these types of bonds are often referred to as risk-free.

These bonds pay periodic interest payments and repay the face value on the maturity date. In our country, Government bonds are denominated in Tanzania Shilling. Bonds issued by government but in foreign currencies are normally referred to as sovereign bonds. We understand that our country is in the process of issuing sovereign bond that will mainly target international investors.

- The pricing and other terms on which a government can sell sovereign bonds depend on how creditworthy the market considers our government/country to be. International credit rating agencies will provide ratings for the bonds, but as expected, market participants (investors) will also make up their own minds about this when the bond is floated to the international markets.
- **(ii) Municipal bonds**, we currently don't have them BUT these are also common form of bonds in other markets – they are issued by cities, local governments, districts or their agencies, or they may also create special-purpose vehicles (SPV), also schools, public utilities, publicly owned airports and ports, and any other local governmental entity at or below the municipal level may issue these type of bonds. Municipal bonds may be for the general obligations of the issuer or may be secured by specified revenues “ring-fenced revenue”.
 - General obligation bonds: where principal and interest are secured by the full faith and credit of the issuer and are usually supported by either the issuer's unlimited or limited taxing power.
 - Revenue bonds: Principal and interest are secured by ring-fenced revenues derived from tolls, charges or rents from the facility built with the proceeds of the bond issue. Public projects financed by revenue bonds include toll roads, bridges, airports, water and sewage treatment facilities, hospitals and subsidized housing. Many of revenue bonds are issued by special authorities (special purpose vehicle), which are normally created for that particular purpose.