How Tanzania can use capital market to tackle challenges – II

This is the second and last part of the two articles that discuss the role of capital markets for our economic development. Last week, we discussed two types of bonds: government bonds and municipal bonds and how they make properly be utilized as avenues for fund raising to propel our inclusive development. Today, we will discuss other type of instruments relevant to our market.

(iii) Corporate bonds – these are bonds issued by a company or corporations. These are bonds that a company issues to raise money effectively in order to expand its business. Sometimes, the term "corporate bonds" is used to include all bonds except those issued by governments (central or local). Corporate bonds are often listed on the Exchange. Currently only about 2% of our bonds markets comprises of corporate bonds. However, in the overall, there are 13 companies that have used the stock exchange to raise funds for their expansion, 4 bonds are still outstanding.

(iv) Assets Backed Bonds again are not yet in our market BUT are bonds whose interest and principal payments are backed by underlying cash flows from other assets. One good example of asset-backed securities bonds, which is a financial security backed against real estate assets. For investors, in some cases and in some markets asset-backed securities are an alternative to investing in corporate debt.

More often SPVs are created to handle the securitization of asset-backed securities. The SPV, which creates and sells bonds, uses the proceeds of the sale to pay back the bank that created, or originated, the underlying assets.

Apart from bonds, other common product that are effectively operative in other markets and are used to propel enterprises and economic development are **Real Estate Investment Trusts (REITs)**. Our Capital Market Regulator has put up the regulatory framework (Real Estates Investment Trust Rules of 2011) to enable capital raising through REITs. The legal framework, among other aspects provides rules for eligibility, responsibility and operationalization of REITs. We, at the exchange have a trading platform (infrastructure) to accommodate such capital raising approaches.

Property and mortgage developers such as the National Housing Corporation, Pension funds, Fund Managers, etc may make use of this platform to facilitate not only in enabling private individuals (retail investors) and professional institutional investors to invest and have ownership in the vibrant real estate industry but also enable real estate developers to access more efficient, effective, better priced and less costly public funding for speedier development of properties and mortgage, being either housing, commercial or industrial properties. In actual fact, less costly funding means lower cost for houses and commercial or industrial properties and hence more affordable houses, office space and industrial properties in our economy.

Once issued in the primary market, a REIT being a security that sells like a share or units will be listed on the exchange to enable tradability between and among investors. REITs is a highly liquid method of investing in real estate. Private individuals (retail investors) can invest in REITs either by purchasing their shares directly during the IPO or on an exchange after listing or by investing in a mutual fund that specializes in real estate. Investing in a listed REITs is a liquid, dividend-paying means of participating in the real estate market for retail investors. For pension funds, this may also be one of the effective mechanisms to enable their members to participate in the ownership of assets created by their contributions – this will compliment available initiatives or facilities such as educational, health, funeral, lending, etc.

Recent data issued by the Bank of Tanzania (BOT) indicates that the country's mortgage size is only about US$ 100 million, this is less than 1% of the total commercial banks lending book and about 0.4% of our GDP! – can listed REITs be a solution?

If the stock exchange is such beneficial as a platform for several capital raising options -- why then in the past 15 years of DSE existence business entities, entrepreneurs, investors, real estate developers, etc have not utilized the stock exchange for long term capital raising to enable introduction, expansion, growth or development of our enterprises?, OR why does local governments and/or government agencies are not using the local capital market to facilitate development of public projects such as roads, railways, bridges, airports, ports, water treatment facilities, sewage treatment systems, storage facilities, etc? Would the proper use of capital market fast track our inclusive development and bring into fruition our 2015 vision?

I believe that a properly regulated and well understood capital market have the power to drive any given country's development to such an extraordinary degree that poverty may be left behind within generation. This is what happened in Chile and to larger extent what happened to the emergence of South Korea as a global economic power and now to most frontier and emerging markets particularly in Asia.

Most western countries were of course on to this little secret from early stages of the industrial revolution – by the way – I believe, Tanzania should make use the local capital market (to compliment FDIs) in investing more in local industrial in order to create the necessary value addition to the highly prioritised agricultural sector – i.e. light manufacturing industrial targeting textiles, agro processing, beef and fishing processing, etc. In fact I believe the country is in dire need of an effective industrial policy that would bring back the plants and factories glory on 1970s and 1980s – which has been vastly been underrated as a result of a privatization policy (and/or strategy) from 1990s and 2000s which left the concept of inclusive development rather desired for. As a nation, it is difficult to afford to live off agriculture and services alone. We need the local capital market that would support investments in factories in critical agro-products such as sugar, paper, coconuts, coffee, tea, pyrethrum, cashewnuts, pyrethrum, etc

Without proper emphasis to a value addition and core skilled, job creation industrial/manufacturing sector, we now seem to be fast tracking (consciously or unconsciously) towards relying on financial, telecommunications and tourism – all service sectors as fundamental engine of development, wealth creation and prosperity – let us consider the case of U.K compared to a still industrialized German, we may learn something – the British almost entirely (literary) gave up manufacturing for financial services. The Germans never gave up on manufacturing and despite the existing turbulences in the financial sector/markets; they are now truly enjoying the fruits of their decisions. Can we organise, accumulate and manage our local capital to facilitate light industries development?

During early stages of the industrial revolution, Western countries took great pains to develop sophisticated liquid markets that readily provided the wherewithal for their economic expansion and, in deed, for building the global corporate empires that we see today. I believe, with proper policies, a shared understanding, right emphasis, we can develop our capital market so that to facilitate an inclusive economic development in line with our VISION 2025.