



CAPITAL MARKETS AND SECURITIES AUTHORITY

A Study on Feasibility and Implementation of the Appropriate Market Segments for the Capital Markets in Tanzania

Synthesis Report

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List of Abbreviations

AIM	Alternative Investment Market
AIMS	Alternative Investment Market Segment
BFIA 1995	Banking and Financial Institutions Act, 1995
BOT	Bank of Tanzania
BRELA	Business Registration and Licensing Agency
CDS	Central Depository System
CISNA	Committee of Insurance, Securities and Non Banks Authorities
CMSA	Capital Markets and Securities Authority
DAHACO	Dar es Salaam Airport Handling Company Limited (changed into SWISSPORT Tanzania Limited since 30 th September 2005)
DCC	Dar es Salaam City Council
DSE	Dar es Salaam Stock Exchange
FISMS	Fixed Income Securities Market Segment
FSA	Financial Services Authority of the United Kingdom
GDP	Gross Domestic Product
GEM	Hong Kong's Growth Enterprise Market
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
IOSCO	International Organisation of Securities Commissions
IPO	Initial Public Offering
IRR	Internal Rate of Return
ISIC	International Standard Industrial Classification
JSE	JSE Limited
KLSE	Kuala Lumpur Stock Exchange
LAPF	Local Authorities Provident Fund
LSE	London Stock Exchange
LUSE	Lusaka Stock Exchange
MAS	Monetary Authority of Singapore
MEMARTS	Memorandum and Articles of Association
MESDAQ	Malaysian Exchange of Securities Dealing & Automated Quotation
MFI	Micro Finance Institution
MIMS	Main Investment Market Segment
NASDAQ	National Association of Securities Dealers Automated Quotation
NBAA	National Board of Accountants and Auditors
NICO	National Investment Company Limited
NMB	National Microfinance Bank
NSE	Nairobi Stock Exchange
NSSF	National Social Security Fund
OTC	Over the Counter
PPF	Parastatal Pensions Fund
PRSP	Poverty Reduction Strategy Paper
PSPF	Public Service Pensions Fund
ROSE	The Republic of China Over the Counter Securities Exchange
SATF	Social Action Trust Fund
SEM	Stock Exchange of Mauritius Limited
SES	Stock Exchange of Singapore
SET	Stock Exchange of Thailand
SGX	The Singapore Exchange
SIDO	Small Industries Development Organisation
SIMEX	Singapore International Monetary Exchange

SME	Small and Medium Enterprises
TATEPA	Tanzania Tea Packers Limited
TCC	Tanzania Cigarette Company Limited
TCCIA	Tanzania Chamber of Commerce, Industries and Agriculture
TIC	Tanzania Investment Center
TIGER	Taiwan Innovation Growing Entrepreneurs
TOL	TOL Limited
TRA	Tanzania Revenue Authority
TZS.	Tanzanian Shillings
USE	Uganda Securities Exchange
UTT	Unit Trust of Tanzania
ZIPA	Zanzibar Investment Promotion Agency

1 INTRODUCTION

1.1 General Background

Despite the level of economic improvements accomplished, Tanzania still remains one of the poorest countries in the world. Vision 2025 is an attempt by the Government of Tanzania to transform it into a country that is free of poverty and able to graduate into a middle-income country with a strong and competitive economy by 2025. Resource mobilisation is one key dimension of Vision 2025 (World Bank, 2004; Likwelile, 2004).

Tanzania's Poverty Reduction Strategy Paper (PSRP), a component of Vision 2025, is acknowledged to be one of the most advanced strategies among comprehensive frameworks supported by the international donor community (ILO, 2003). With respect to private sector development the PRSP seeks to extend reach of markets by fostering a sound investment climate and improving basic service delivery through private participation and private provision as well as aid directed at private initiatives for delivery of public services (World Bank, 2001).

An increase in the number of firms and investors participating in stock exchanges generates liquidity which has a proven positive relationship with economic growth. Countries with liquid markets experience faster rates of capital accumulation and greater productivity gains (O'Hara, 2001).

Lack of substantial economic growth in low-income countries such as Tanzania is frequently attributed partly to insufficient savings. For this reason one primary purpose of the economic reforms is to increase savings and ease the mobilisation of savings (Blyh and Wiberg, 2003). Access to and ease in movement of financial resources fundamentally influences the prospects for private sector growth. This study is premised on this dedicated desire of the country to motivate the channelling of savings to support economic growth.

1.2 Rationale and Objectives

Although there have been significant positive changes in the Tanzanian economy since establishment of DSE, different stakeholders have raised concern on the availability of capital for financing businesses development and expansion. In response to these concerns, the Capital Markets and Securities Authority (CMSA) embarked on a study to consider feasible frameworks for an alternative investment market and/or an Over the Counter (OTC) market that could serve national needs while taking into account the different interests of issuers, investors, intermediaries and other stakeholders.

CMSA undertook this study to assess the developments in the capital markets since the establishment of the DSE and review its performance from the perspectives of its different stakeholders in order to enhance the contribution of capital markets in economic vibrancy of Tanzania. The study intended to explore the gaps in the existing capital markets structure that have bearing on efficiency in savings mediation role of the market and thus growth of the private sector. Consequently, it therefore sought to make recommendations on the appropriate capital markets structure for Tanzania that would accommodate better the productive sector and the investing public in a vibrant, organised, efficient and transparent environment.

In accomplishing these objectives the study specifically focused on the following guiding points:

- i. To establish the appropriate market segments (market structure) for the Tanzanian capital markets;
- ii. To recommend the appropriate regulatory, organisational and operational arrangements for the proposed market segments; and
- iii. To recommend the actionable implementation programme.

2 METHODOLOGY

2.1 The General Approach to the Assignment

Development of capital markets involves a number of stakeholders and necessarily entails field data collection and consultations at varying levels of intensities. In a 2-phased approach this study combined the use of a self-administered survey questionnaire supplemented by in-depth interviews. This study also included learning from the experiences of others through literature reviews and study visits.

Literature review was conducted on securities markets in 13 countries covering both developed markets in Europe and America and developing markets in Asia and Africa. Study visits were conducted in 5 countries both in emerging and developed economies to garner practical experiences of the capital market structures.

2.2 Sample Selection and Response

Four main sample clusters were formed from the population for this study which included Companies, Investors, Market Intermediaries and Professionals. Companies were further subdivided into 2 sub clusters of Management and Shareholders which were approached as separate respondents, especially where ownership was distinctly separated from Management. Investors were also subdivided into 2 sub clusters of Individual and Institutional Investors.

A total of 329 entities were identified for administration of the survey instruments and conduction of interviews. Instruments were subsequently administered to about 300 entities. 146 questionnaires were completed and collected. A total of 71 in depth interviews were also held.

2.3 Data Analysis

Questionnaire survey data was entered and processed using the Statistical Package for Social Sciences [SPSS]. Analyses sought to initially generate frequencies, a step that was extended further to include cross tabulations across sample groups. Finally relevant statistical tests were carried out when necessary to test statistical significance of some observed relationships.

2.4 Limitations

Although they do not in any way diminish the significance of results of this study there were some difficulties experienced in the course of this study that rendered the study strenuous. These issues are summarised as follows:

- i) in a business environment where people are not used to providing information to researchers this study was viewed as an intrusive exercise by some respondents thus according it less enthusiastic cooperation;
- ii) the fieldwork was conducted at the end of the calendar year where most responsible persons were going for their end of year vacations;
- iii) the nature of data required in this study was very extensive, demanding time and concentration to complete the questionnaires; and
- iv) the level of knowledge of capital markets and opportunities of going public and listing at the stock exchange are still very limited amongst Tanzanians. Some questionnaires were returned incomplete and little information gathered in some interviews.

2.5 A Description of Respondents

Companies from various economic sectors participated in the study. Most companies were owned by less than 7 shareholders. A substantial majority of the company's managements (70%) and their shareholders (63%) were aware of the capital markets institutions but were generally ignorant of the opportunities obtaining in the securities markets.

Both men and women participated as individual investors. Most of respondents were aged between 40 and 59 years and formed the most active investing group in the society. Individuals below 40 years concentrated in DSE listed securities while individuals above that age invested in both listed and non listed securities. 62.8% were professionals with 17.1% being business persons, the rest were politicians, retirees and house wives. The level of awareness of securities markets and the associated opportunities were both related to the profession and age of respondents.

Institutional investors ranged from new institutions (one year of existence) to old institutions (62 years of existence). Six were private while eight were public companies. Of the six that were private, three were subsidiaries of foreign companies. 93% of the institutional investors had participated at DSE. Interestingly institutional investors cited 7 securities that are not listed at the DSE in which they invested.

Of the banks participating, 57.1% participated in the primary capital markets activities. Most banks (71.4%) did not lend to individual customers to buy securities during the IPO although 85.7% lent to institutional customers for that purpose. Responding banks indicated that they have limited capacity to handle large volume of transactions during IPOs.

Lastly, 4 brokerage companies and the DSE also participated in the survey.

3 ISSUES EMANATING FROM THE REVIEW OF EXPERIENCES OF OTHER MARKETS

3.1 Lessons from Literature Review

The literature review of experiences of other market segments covered four main geographical regions; Europe [AIM and OFEX], the US [NASDAQ], Asia [Singapore SGX, Bursa Malaysia, Stock Exchange of Thailand, Taiwan Stock Exchange, Hong Kong Exchange and Karachi Stock Exchange] and Africa [Uganda Stock Exchange, Nairobi Stock Exchange, Lusaka Stock Exchange, Stock Exchange of Mauritius and JSE Limited]. The UK and US have highly developed and mature market segments that cannot arguably serve as immediate benchmarks for the envisaged plans for Tanzania. They however, have important lessons in terms of basis for their regulatory requirements and the role successful market segments can play in creating vibrant economies. On the other hand, market segments in the African region are variably at the other extreme, being largely in infancy stages. South Africa and Mauritius nevertheless, offer insightful experiences with a local African economic context. Asian experiences offer the richer insights because of the levels of experimentation and variations undertaken in setting up and operating different market segments found in these countries. Following are some of the common aspects picked from the literature review of experiences of other countries.

3.1.1 Ownership and Operating Structures

Ownership structures of stock markets vary across regions; some markets are set up as limited liability companies and are even floated on the Exchange [Singapore SGX, Bursa Malaysia, Hong Kong Exchange] while others are quasi-government agencies [Thailand's SET, Karachi Stock Exchange, Nairobi Stock Exchange, Uganda Stock Exchange, Lusaka Stock Exchange, etc].

The most dominant form of ownership structure in stock exchanges across all regions is the quasi-government agency where a regulatory authority under a statute facilitates the establishment of an exchange and regulates it. In terms of operating structures Second Boards and OTC Markets in the UK, Asia and Africa have been under the Main Board and they are normally treated as training ground for the higher board. This is, from the experiences of other countries, the most appropriate structure of market segments and this study takes account of it. As discussed later in this report OTC Markets have been observed to be on the wane especially in Asia as emphasis is shifted to Alternative Investment Markets.

3.1.2 Governance and Management of Market Segments

Also across all regions all main stock exchanges reviewed operate under a Board of Directors, without exception. This study finds this consistent with the DSE set up.

3.1.3 Eligibility Criteria and Listing Requirements

Eligibility criteria and listing requirements varied extensively across stock exchanges and regions. Different economic circumstances would account for differences in especially quantitative criteria such as profitability thresholds and size of listing companies.

Nevertheless, there are many common criteria and listing requirements that this study eventually does take into consideration. Except for magnitude of variables, eligibility criteria and listing requirements for main boards were not substantially different from those of the second boards.

Eligibility criteria shared among all second boards are as listed below:

- i) Paid Up Capital and/or Asset Size,
- ii) Track Record,
- iii) Profit Requirements,
- iv) Continuity of Management,
- v) Continuing Disclosure Requirements,
- vi) Shares in Public Hands,
- vii) Shareholder Moratorium,
- viii) Sponsor Requirements, and
- ix) Corporate Governance Issues.

3.1.4 SMEs

The EU economy is heavily dependent on the SME sector, which in turn has been largely reliant on debt financing. Current thinking for creation of a pan-European SME equity market promises considerable benefits for the European economy. It is estimated that economic growth benefits of an effective pan-European platform can be up to 0.3-0.6% of the Union's GDP, or between 28.32 and 56.63 billion euros (London Stock Exchange, 2005). The AIM has been an effective and successful capital market which alone it has raised 4.7 billion pounds in capital for SMEs¹ through IPOs in 2004 which is 12.95 percent of all capital raised in the all European capital markets.

4 FINDINGS ON FEASIBILITY OF MARKET STRUCTURE AND NEED FOR NEW MARKET SEGMENTS

4.1 Results from Survey Fieldwork Data

All brokers (100%) had a view that the existing two tier market structure needed to be structured to serve all securities market needs either in its present form or where needed by adding another market segment. 72.9% of Institutional investors on the other hand supported the idea that the existing market structure could be structured to serve all market needs although slightly more (88.9%) had a view that both the existing market structure need to be restructured and a new market segment established. DSE was of a view that the existing market structure could be restructured to serve all securities market needs in the country without the need for a new segment. This view was supported by individual investors who cautioned that any market segment to be

¹ The examples of the SMEs shown to demonstrate the extent the value of shareholders stakes multiplied over time indicate that the market capitalisation during admission ranged between 8 million to 512 Million Pound Sterling. In any case, these are medium to very big companies in our economies.

established should be well regulated to protect investors and that new market segments should allow participation of all levels of individual investors irrespective of their degree of sophistication (60%).

On the supply side, both the management of responding companies and their respective shareholders indicated their interest in utilising the capital markets in the country for exit mechanism and raising capital finance. When asked if they would make a decision to list at DSE if they meet the listing conditions, 43% of the responding companies stated that they would. The figure increased to 52% when they were asked to give their preference given a situation with relaxed listing requirements.

Some companies actually indicated their inability to make listing decisions as they were wholly owned subsidiaries, others preferred to hold on to the existing shareholders' control. The study found that the most preferred source of financing in companies in Tanzania is bank borrowing, followed by the capital markets. It was however encouraging that, the companies that showed much interest in the use of capital markets were the most profitable ones. The start-up and small companies also showed the same interest in capital markets as profitable companies.

Brokers, institutional investors, issuers and investors would welcome change and participate in the restructured capital markets.

Survey results did not support establishment of an OTC market in Tanzania. Of the responding companies, only 10.65% were definitely positive that they could allow their shares to trade in this market segment. Survey results indicate that 57.4% of the companies would like to consider the option while the remaining 31.9% were definitely sure that they would not consider the option. Shareholders were equally negative as only 13.3% of them were definitely sure that they will allow their companies' shares to trade in the OTC market. 63.3% of the shareholders stated that they would consider the option while 23.35% stated that they were sure they will not go with the idea.

4.2 Inputs from Study Visits

Study visits to gather experiences of other countries were conducted and these included visits to Mauritius, Thailand, Malaysia, USA and UK. Reports from study visits observed and concluded that many emerging markets were running the Alternative Investment Market segments alongside the Main Investment Market segments. Thailand and Sri Lanka are two countries that tried to implement the OTC markets but abandoned the idea after years of operational difficulties. In Thailand, the OTC was found to be bogged down by a multitude of problems and had to be abandoned in 2003. In Sri Lanka, the OTC had to be abandoned most importantly because it became a serious obstacle to further capital markets development in that country.

Mauritius too was, at the time country study visits were conducted, in a process of scrapping its OTC market and instead establish the Alternative Investment Market segment in its place. In Mauritius, it was found that, generally, the OTC market did not fulfil the price discovery function and was not acting as a stepping stone to the main market. Malaysia never had an OTC for equity securities as it is worried of infecting weaknesses of a loosely regulated segment to the well regulated Main and Alternative Market segments.

Consequently, there is no support from the study visits for creation of the OTC Market which is therefore not being considered a viable market segment for Tanzania. The justification is the OTC market was found to be unattractive in environments of emerging

economies such as ours. Weaknesses inherent in the typical OTC Market are so perverse to render it unviable to Tanzania.

Study visits also contributed a wealth of knowledge and experiences that are being incorporated into other parts of this report, especially with respect to organisational and administrative arrangements, trading and settlement systems as well as fee structures.

5 FINDINGS ON PROPOSALS FOR CAPITAL MARKETS DEVELOPMENT

5.1.1 Public Awareness Programmes

The general consensus amongst respondents is that the level of awareness of the capital markets institutions and transactions at the stock exchange is low. Meaningful public education programmes should be prepared using both Kiswahili and English languages depending on the specific audience targeted. Areas for coverage of various public awareness campaigns for different target audiences are proposed as follows for each target group.

Issuing Companies

A number of topics should be addressed to the companies with potential for listing to prepare them for going public and listing. These may include the following:

- i. Familiarisation on the use of capital markets,
- ii. Costs involved in the process of going public, and
- iii. Listing requirements at the Stock Exchange.

Shareholders

In designing public awareness campaign for shareholders, the following issues should also be taken into account:

- i. Awareness of the existence of CMSA and DSE,
- ii. Trading activities at DSE,
- iii. Risk mitigation properties of the organised markets,
- iv. The role of the markets in improving information disclosure, and
- v. Imparting of use of market information in making investment decisions.

Individual Investors and Professionals

The public awareness campaign to individual investors ought to be prepared targeting specific characteristics of groups of individual investors. Key subject topics may include the following:

Understanding of share trading transactions,

- i. Investor protection role of different institutions in the securities industry in Tanzania,
- ii. Capital markets organisational arrangements and the reasons for the existing and the contemplated capital markets structure,
- iii. Understanding the concept of risk and returns with a need for savings using the products best suiting their risk appetite,

- iv. The role of the regulator,
- v. The role of the intermediaries, and
- vi. Analysis of the information from issuers.

Individual investors also may require to be made aware and understand market development initiatives by the Government and the Capital Markets and Securities Authority, including the trading platform automation project and its impact on access of the service all over the country. The emphasis should be on how the markets will operate given different operational arrangements and rationale for the change.

5.1.2 Simplification of Conditions as Opposed to Bureaucratisation

When assessing the level of support by the financial markets for financing the economic entities, survey results indicated that the conditions set by the markets (stock exchange, banks, and other financial institutions) are meant for well established companies, they were too complicated and bureaucratic for small firms. Companies that issued bonds or equity securities through the capital markets cited long procedures and tight regulations.

5.1.3 Tax Incentives

All respondents supported the idea that the existing tax incentives are important and should be maintained while additional incentives should be considered. As far as the issuers are concerned, the tax incentive is the most significant factor in making the decision to raise capital from the public and list on a stock exchange followed by accessing funds for growth and development, improvement of companies' image and prestige, and diversification of sources of finance. Accordingly, when the companies were requested to give their opinions on a need for additional fiscal incentives, 77.4% of the respondents supported additional tax incentives.

As an inducement to list, companies that meet listing requirements opined that they would go ahead with the listing decision if granted a tax amnesty on additional tax obligations prior to listing. However, the most effective fiscal incentive was cited as the corporate income tax concession that would attract both undecided and decided issuers to raise funds from the public and listing.

5.1.4 Regulation of Unlisted Public Companies

Respondents proposed and supported the idea of instituting some level of regulation of the public companies not listed at the stock exchange. The respondents proposed continuous obligations for the non listed public companies to include the following:

- i. Company's operations,
- ii. Transactions between company and management,
- iii. Holding annual general meeting,
- iv. Putting in place a clear dividend policy,
- v. Financial statements audited by an independent certified public accountant,
- vi. Profile of company's key shareholders, and
- vii. Material terms of contracts or lease agreements.

5.1.5 SMEs' Entry into the Capital Market

Regarding SMEs, the respondents pointed out that, there are serious problems with corporate governance of SMEs. Most respondents did not understand what SMEs are and how they operate – they believed that SMEs operate in closed circuits, barely disclosing to other stakeholders. On the other hand, most SMEs felt that their source for capital finance should be banks although in practice banks have traditionally sidelined them. Some responding small companies felt the capital markets should be the alternative avenue for long-term funds raising².

5.1.6 Suggestion on Location of the Proposed Market Segments

Lastly, the geographical location of the market and ease of participation of investors were also cited as important aspects. Ease and cost of participation were linked to the technology used both in communication between investors and brokers and handling of secondary trading at the DSE.

6 THE RECOMMENDED CAPITAL MARKETS STRUCTURE

Results of the study, together with the advantage of experiences of other countries gathered from literature review and study visits direct the study towards recommending a two - market segments structure. These are:

- The Main Investment Market Segment (MIMS), and
- The Alternative Investment Market Segment (AIMS).

The survey found that, 68.6% of the companies would either immediately opt for listing in the alternative market segment (20.8%) or consider the option (47.9%) if they meet the listing requirements. Shareholders were more positive in passing a decision to list at the alternative market (81.3%) than the company managements. Individual investors on the other hand, overwhelmingly (86%) supported the idea of establishing the alternative market segment.

The demand side of the market was also reviewed. Institutional investors were found to also invest in more risky assets in informal markets due to lack of adequate securities in the formal market. Institutional investors' significant concern was a balance between risks and returns on their investments, a concern that would be more pronounced in securities in an unregulated environment. Individual investors' key concern, on the other hand, was a need for conducive environment for investing. Individual investors were looking forward to increased participation given a properly regulated environment that affords protection to the investor.

Main Investment Market Segment accommodates companies with track record allowing investors an easier way to estimate their potential earnings before investing. Companies to be allowed to list their shares in the MIMS will have a history proving a good competitive position of its products and services and thus certain level of future

² The recommended Alternative Investment Market Segment (AIMS) in Chapters 6 and 7 below provides for among other, support for the SMEs.

prospects. Accordingly, most such companies will have already covered a bigger growth stage and are generally not characterised by fast and substantial growth prospects. Such companies are typical investment choice for majority (ordinary) investors and do easily meet a requirement for higher level of free float shares.

Small and start up companies searching for substantial funds for acquiring critical technology, critical production process, or capacity to make them economically viable and capable of rapid growth do not meet requirements for MIMS. These companies are, however, the most lucrative investments as they carry with them potential for rapid turnover of shareholders' value. Such companies are also high risk investments as their chances to fail is increased by their venturing into uncharted territories, and possibilities of failing to manage challenges associated with speedy growth. These are the companies that shall be accommodated in the AIMS³.

The two market segments will be constituted under the DSE.

7 RECOMMENDED REGULATORY FRAMEWORK

7.1 Eligibility Criteria

Companies with little or no track record are not an attractive investment for majority (ordinary) investors. Such companies are a good investment opportunity to high risk taking investors. Accordingly, AIMS companies are generally characterised with much less free float shares than MIMS companies.

To mitigate the investment risk faced by investors, scrutiny of AIMS companies when being considered for approving them to raise capital from the public is more intense than is the case for MIMS companies. It is important that, detailed business plan be submitted and various credible authorities and professionals (including for example a requirement for a permanently engaged nominated advisor) be involved in scrutinising the application for going public.

The proposed eligibility criteria for the two market segments are presented as follows:

Table 1: Eligibility Criteria

		MIMS	AIMS
1	<i>Track Record</i>		
		Must have been in existence for at least three years.	No minimum track record is required.

³ Based on the balance sheet variables, SMEs as defined in the National SMEs Policy may be admitted at the AIMS if they meet other eligibility criteria. The requirements under the eligibility criteria for AIMS extends beyond size of a company (balance sheet variables) and do also include qualitative variables – Chapter 7.

		MIMS	AIMS
		Must have generated profits in at least two of the preceding three years.	No minimum profitability requirement. However, a company without any track record must show that the funds are required to support projects that are competently researched and prospects forecasted.
		Management should have been with the company for the preceding two years.	Track record of management in the applying company is not a requirement
		Shareholders moratorium not required.	If the company has no track record, the promoters will not be allowed to exit for the three years of listing.
2	Capital and Assets Requirements		
		A minimum paid-up capital of TZS. 200 million required.	No minimum capital requirement.
		A minimum net tangible asset figure of TZS. 500 million is required	No minimum net tangible assets requirement
3	Nominated Advisor, Feasibility and Incorporation Status		
		Nominated Advisors not required.	Having a Nominated Advisor is a requirement.
		No report is required by a Nominated Advisor	5 years business plan and an independent technical feasibility report prepared by the Nominated Advisor required.
4	Cross Listing		
		Cross listing of companies will only be allowed to take place where the provisions of the company laws have similar import of Tanzanian law.	Cross listing of companies will only be allowed to take place where the provisions of the company laws have similar import of Tanzanian law.
5	Number of Shareholders and Shareholding Spread		
		Minimum number of shareholders is 1,000	Minimum number of shareholders for AIMS company is 300

		MIMS	AIMS
		Public shareholding in MIMS should be at least 25% of the issued shares.	Public shareholding in AIMS should be at least 20% of the issued shares.
6	<i>Requirements Applying to both the AIMS and MIMS</i>		
		Issuing of a Prospectus approved by the Authority and registered with the Registrar of Companies	Issuing of a Prospectus approved by the Authority and registered with the Registrar of Companies.
		Publication of an abridged Prospectus in the press.	Publication of an abridged Prospectus in the press.
		Having an Audit Committees as per the guidelines on corporate governance.	Having an Audit Committees as per the guidelines on corporate governance.
		Submission of letters of comfort from other regulators overseeing issuers.	Submission of letters of comfort from other regulators overseeing issuers.
		Memoranda and Articles of Association for issuers should provide for good corporate governance clauses.	Memoranda and Articles of Association for issuers should provide for good corporate governance clauses.

7.2 Disclosure Requirements

7.2.1 Prospectus Requirements

It is recommended that identical prospectus disclosure requirements apply for both issuers in the AIMS and MIMS.

i. **Front and Back Cover Pages**

Company name, number and types of securities, date of registration of the prospectus, and caution statements.

ii. **Summary**

Brief description of the company and its business, the type and amount of securities being offered, the number of shares that will be outstanding following the offering, the use of proceeds, financial information, summary risk factors, the addresses, and a proposed listing symbol.

iii. **Risk Factors**

Listed in their order of importance and likelihood of occurrence.

iv. **Use of Proceeds**

The proposed use of the net proceeds broken down into each principal intended use, if anticipated proceeds are not sufficient, disclose order of priority of such uses and sources of other funds needed, and minimum amount that must be raised.

- v. Dividend Policy**
Company's current and anticipated dividend policy, including frequency and amount of dividend.
- vi. Capitalization**
Short and long-term liabilities, stockholders equity (both actual and pro-forma basis reflecting the offering).
- vii. Dilution**
Disclose the net tangible book value per share before and after the offering.
- viii. Selected Financial Data**
To highlight trend in the financial condition and operating results (for 3 years – as applicable), and to highlight trend – interim period and corresponding prior-year period. For companies without track record include a 5 year financial projections.
- ix. Management's Discussion and Analysis of Financial Condition and Results of Operations**
Analyzes the company's operating results, capital resources and other relevant financial information, reasons behind the trends; anticipated changes from historical trends, and profit forecast or estimate.
- x. Narrative of the Business**
Comprehensive narrative discussion of the business during the previous [3] year period, organizational structure, products and services, sector, dividend restrictions – as shall be applicable.
- xi. Management and Advisors**
Names, age, academic and professional qualifications, and business experience for each of the company's directors and executive officers for the preceding five years. For CEO and the four other most highly compensated executives, extensive compensation data. Describe board of directors committees, employment contracts, the company's stock plans and indemnification of directors and officers. Also describe advisers, auditors, reporting accountants.
- xii. Interested Persons Transactions and Conflict of Interests**
Interest of financial advisers, disclosure of the related party transactions, conflict of interests; and related parties – directors, executive officers or 5% shareholder.
- xiii. Description of Share Capital**
Description of important rights and characteristics of the securities offered, and Provisions of the company's certificate of incorporation or bye-laws discouraging a take-over attempt.
- xiv. Underwriting Arrangements**
List of the underwriters and respective amounts of stock each underwriter is allotted, any conditions to the obligations of the underwriters to sell the securities, and factors considered in determining the price.
- xv. Plain English Language**
Apply plain English throughout the prospectus.

xvi. Disclose a List of Information Available for Public Inspection

xvii. Offer Statistics and Timetable

Offer price, number of shares, opening and closing date, method of offering/plan of distribution, name and addresses of collecting/receiving agents, offer period may be extended/shortened, method of delivering share certificates/CDS receipts, manner of announcing allotment results, allotment criteria approved by the Authority; and expenses of the offer.

7.3 Continuous Obligations and Disclosure Requirements

It is recommended that identical continuous disclosure requirements for the MIMS and AIMS be implemented.

7.3.1 Periodic Disclosure and Other Requirements

- i. Annual accounts, prepared in accordance with IFRS, audited by a CMSA approved auditor should be submitted to DSE and CMSA not later than 3 months of the end of the financial year;
- ii. Interim quarterly reports prepared by Directors shall be submitted to DSE and CMSA and published in the newspapers not later than two months from the end of the financial quarter; and
- iii. The company should hold AGM as required by Companies Act.

7.3.2 Corporate Disclosure Policy

In addition to the periodic disclosure requirements, the public companies shall be required to have in place and implement a corporate disclosure policy that shall include immediate disclosure of material information in response to unusual market reaction; and disclosure of all price sensitive information.

7.3.3 Principles of Corporate Governance

Every issuer/public company shall adhere to the corporate governance principles including ensuring having an effective Audit Committee constituted as per CMSA guidelines on corporate governance and MEMARTS providing for minority shareholding and good corporate governance relating to directors. Further the issuing company should provide for training of its directors.

7.4 Fee Structure

Additional requirements on part of AIMS companies e.g. preparation of the 5 year business plan and engagement of the Nominated Advisor, while aiming at protecting investor, have cost implications.

As part of the market development initiative, the cost element related to regulatory approvals is normally set at a lower range for the AIMS companies than is the case for MIMS companies. The seemingly low financial cost on listing is in most instances outweighed by intense scrutiny associated with need for investor protection.

Companies qualifying to list at MIMS are better placed to meet the conditions for listing at AIMS as for example they can easily put together a business plan if they do not have one and can engage the services of a nominated advisor at a very low fee due to ease of projecting their prospects given their track record. Accordingly, it is proposed that the recommended fee structure for AIMS should not be abused by allowing companies qualifying to list at MIMS to seek listing at AIMS.

The recommended fee structure for the two market segments is as follows:

7.4.1 Listing and Prospectus Evaluation Fees

Listing and Prospectus evaluation fees are proposed as summarised in Table 2.

Table 2 : Listing and Prospectus Evaluation Fees

	MIMS	AIMS
<i>DSE Listing Fees</i>		
(i) Initial listing	0.2%; min. TZS 2 Mn. max. TZS 20 Mn.	0.1% of market capitalization, Minimum. TZS.1 Mn., Maximum TZS.10 Mn.
(ii) Cross listing	0.2%; min. TZS 2 Mn. max. TZS 20 Mn.	NA
(iii) Annual listing	0.05% min. TZS 2 Mn.; max. TZS 10 Mn.	0.025% of market capitalization, Minimum TZS. 1 Mn., Maximum TZS. 5 Mn.
(iv) Additional listing	0.2% of the market value of the additional shares subject to minimum of TZS 2 Mn. and Maximum of TZS 20 Mn.	0.1% of market capitalization, minimum TZS. 1.0 Mn maximum TZS. 10.0 Mn.
<i>CMSA Prospectus Approval Fees</i>		
(i) 1 billion TZS or less	TZS 2 Mn.	TZS. 250,000
(ii) Between 1 and 5 billion TZS	TZS 2 Mn. + 0.2% of amount > TZS 1 billion	TZS. 1.0 Mn. + 0.1% of amount > TZS 1 billion
(iii) Between 5 and 10 billion TZS	TZS 10 Mn. + 0.1% of amount > TZS 5 billion	TZS 5 Mn. + 0.05% of amount > 5 TZS billion
(iv) More than 10 billion TZS	TZS 15 Mn. + 0.05% of amount > TZS 10 billion	7.5 m + 0.025% of amount > 10 TZS billion
(v) Cross listing	TZS 15 Mn.	NA

The prospectus evaluation fees by CMSA are also applicable to rights issues and processing of bonus shares/stock dividends.

7.4.2 Offer Documents Resubmission Fee

A new fee is recommended for resubmission of offer documents at TZS 500,000 each for the MIMS and TZS 250,000 for the AIMS.

7.4.3 Negotiable Trading Transaction Rates

It is recommended that the secondary trading transactions rates be negotiable where the current rate of 2% shall be the ceiling with a floor being TZS 1000 also applicable at the moment.

7.4.4 CMSA Levy, DSE Levy and Fidelity Fees

CMSA Levy, DSE Levy and Fidelity Fees remain at the current levels of 0.14%, 0.14% and 0.02% respectively.

7.4.5 Fees for CMSA Licensed Market Players

Fees relating to the market players licensed by the CMSA are recommended to be as summarised in Table 3.

Table 3 : Fees for CMSA Licensed Market Players

	Exchange	Dealers/broker	Investment advisors	Fund Managers/ Trustees for CIS	ADRs
	TZS	TZS	TZS	TZS	TZS
Applications fee	50,000	50,000	50,000	50,000	50,000
Admission/ Approval fee	500,000	500,000	500,000	500,000	500,000
Annual fee	2,000,000	500,000	250,000	1,000,000	250,000
Replacement of license	100,000	100,000	50,000	100,000	50,000
Gross earnings	1%	-	-	-	-

	Authorized Depositories	Investment Banks	CDS
	TZS	TZS	TZS
Applications fee	50,000	50,000	50,000
Admission fee	500,000	500,000	500,000
Annual fee	1,000,000	3,750,000	1,500,000

7.4.6 CDS and Other Fees

Recommended fees relating to CDS and other fees are shown in the summary Table 4.

Table 4 : CDS and Other Fees

	MIMS	AIMS
Market Development Fees	Payable on annual basis by listed companies to CMSA - .01% market capitalization	Payable on annual basis by listed companies to CMSA - .01% market capitalization

	MIMS	AIMS
	for equity securities subject to a minimum of TZS 600,000 and a maximum of TZS 1,200,000	for equity securities subject to a minimum of TZS 600,000 and a maximum of TZS 1,200,000
CDS fees		
i. Transaction fees	TZS 1,000	TZS 1,000
ii. Custody fees	TZS 1,000	TZS 1,000
iii. Consolidation fees	TZS 1,000	TZS 1,000
iv. Re-issue fee	TZS 2,000 per CDS receipt	TZS 2,000
v. Private transfer fees	TZS 1,000	TZS 1,000
CDS Members		
(i) Admission	TZS 1,000,000	TZS 500,000
(ii) Annual fees	TZS 500,000	TZS 500,000
(iii) Change of LDM by CDS operator	TZS 40,000	TZS 40,000
(iv) Statements	TZS 5,000	TZS 5,000
(ii) Withdrawal fees	TZS. 50,000	TZS 50,000
(v) Mortgaging and Releasing mortgages	TZS 50,000	TZS 50,000
(vi) Processing of IPO	TZS 5,000,000 fixed	TZS 2,500,000 fixed
(vii) Processing of company register	0.5% of market capitalization, minimum TZS 2 Mn., max. TZS 5 Mn.	0.25% of market capitalisation, min. TZS 1 million, max. TZS 2.5 million

7.5 Nominated Advisor Requirement

Any issuer through the AIMS, must engage one of Nominated Advisers approved by CMSA, when making any application for listing which requires the production of listing particulars.

7.5.1 Roles and obligations of the Nominated Advisers

The roles of the Nominated Adviser in AIMS shall be to appraise the CMSA and DSE on the readiness of the issuer to issue securities and list at the AIMS. The Nominated Adviser shall, either on his own or in consultation with other experts, appraise the project for the purpose of seeking listing of the company under the AIMS and shall certify/confirm to the CMSA and DSE that the company is a viable investment, the pricing of its sharers objectively determined and that the advisor will remain and continue advising the company as long as it is listed at the AIMS.

7.5.2 Qualifications for a Nominated Adviser

The following are the main qualifications for a Nominated Advisor:

- Incorporation in Tanzania (individuals are not eligible),
- Licensing by CMSA as Investment Adviser, a Broker/Dealer or Investment Bank.
- having practiced corporate finance for at least three years,

- d) Having in employment at least one "qualified executive,"⁴
- e) Its key staff having satisfied CMSA on their competency through interview, and
- f) Employee having sustained any disciplinary action by a Regulator or other law enforcing agency in the context of financial services or corporate finance shall not be considered for a qualified executive.

7.5.3 Obligations of Nominated Advisers

Nominated Advisors shall be obliged to both periodic and continuous requirements as shall be enshrined in the regulations.

8 IMPLEMENTATION PROGRAMME

Public education must form an important preparatory step toward implementation of feasible market structure in the country.

Following conclusion of this study, synthesis of the recommended regulatory and organisational arrangements into regulations, rules and codes of conduct shall be an immediate challenging task.

The market infrastructure shall also require to be modernised. Payment, clearing and settlement systems have been cited as important issues in line with the geographical setting of the market. With automation, the geographical setting of the market becomes irrelevant. Later, during the second quarter of financial year 2006/07, there will also be a need to change the public outcry auction based trading rules into automated trading system rules and codes of conduct.

With the substantial changes resulting from the capital markets transformation exercise, capacity building among the market operators, regulators and intermediaries will be crucial.

Three critical phases have been identified by this study:

- i) Required intensive public awareness campaigns to all sections of the population,
- ii) Preparation of the regulatory framework for the two capital markets segments,
- iii) The third key aspect shall be implementation of the new capital markets structure in Tanzania.

To attain the third phase, a number of additional key preparatory aspects will be required as follows:

- i) Capacity building for the regulators, market operators, professionals, and policy makers;

⁴ A qualified executive is a full-time employee of an applicant who has gone through and passed a CMSA dealers' course and is involved in giving corporate finance advice and who has acted in a corporate finance advisory role for at least three years.

- ii) Automation of the trading platforms to ease the physical access and increased transactions volumes; and
- iii) Having in place adequate fiscal and other incentives for listing to attract more products and thus ensure vibrant markets.