



Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

DIRECTORATE FOR FINANCIAL, FISCAL AND ENTERPRISE AFFAIRS
PUBLIC DEBT MANAGEMENT UNIT

Room Document No 8

3rd Forum on African Public Debt Management

ISSUANCE AND PRIMARY DEALERSHIP SYSTEM IN TANZANIA

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This document is circulated as a background paper to Session No. 2 for the 3rd Forum on African Public Debt Management, beginning on 4 December 2008 at 14.30pm. Questions concerning this document can be addressed to Hans J. Blommestein, Co-ordinator of the OECD Working Party on Debt Management; (<mailto:hans.blommestein@oecd.org>).

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Issuance and Primary Dealership System in Tanzania

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(Paper presented at the 3rd OECD Forum on Africa Public Debt Management, Paris Dec 4, 2008)

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Introduction

- In a bid to minimize the cost of government borrowing over a medium term and subject to a reasonable degree of risk, multiple competitive weekly auctions were introduced in August 1993.
- At the inception of the primary market auctions, all potential investors were allowed to participate directly. However, with time the number of participants increased becoming unmanageable.
- In 1998 the issuance strategy at primary level was changed. This gave rise to the introduction of Primary Dealers.

Rationale for appointing Primary Dealers

- Ease securities distribution process.
- Spur secondary market trading in government securities.
- Widen investor base.
- Promote a liquid and orderly market.

Composition of Dealers

- 19 commercial banks appointed.
- 5 broker Dealers.
- Allowed Direct investors with TZS 100 million to participate directly (e.g. Pension Funds, Insurance companies)

Performance from 1998 - 2003

For the period 1998 – 2003, the system was not able to deliver the intended results due to Structural and Technical Problems.

❑ STRUCTURAL

- PDs reluctance to bid on behalf of their customers.
- Investment in government securities compete with banks deposits.
- Investors submit small bids thereby increasing administrative costs
- Charging high commissions which inhibit wider participation.

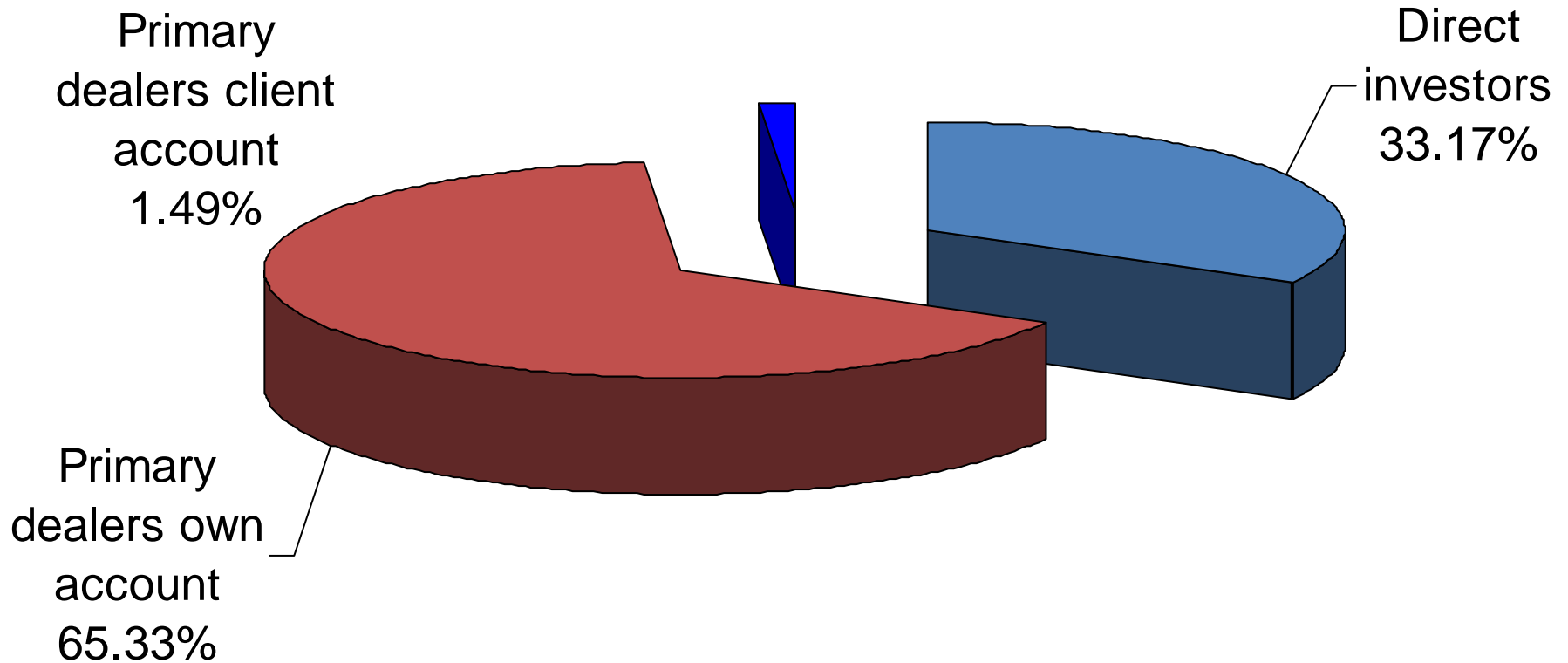
Structural (Cont'd)

- Lack of level playing field due to disparity in capital base between commercial banks and broker dealers.
- PDs do not fulfill their obligations as market makers and underwriters since they do not have exclusive access in auctions.
- Limited investment opportunities that encourage PDs to hold securities until maturity.

□ Technical

- Limited market awareness/expertise of PDs.
- Cumbersome bidding procedures through PDs.
- Absence of Standard Treasury Dealing Equipment (e.g. Reuters) for on line trading and timely dissemination of market information.
- Non enforcement of the Code of Conduct e.g. the Bank's non revocation of PD registrations for non performance.

Performance of Primary Dealers 1999-2003



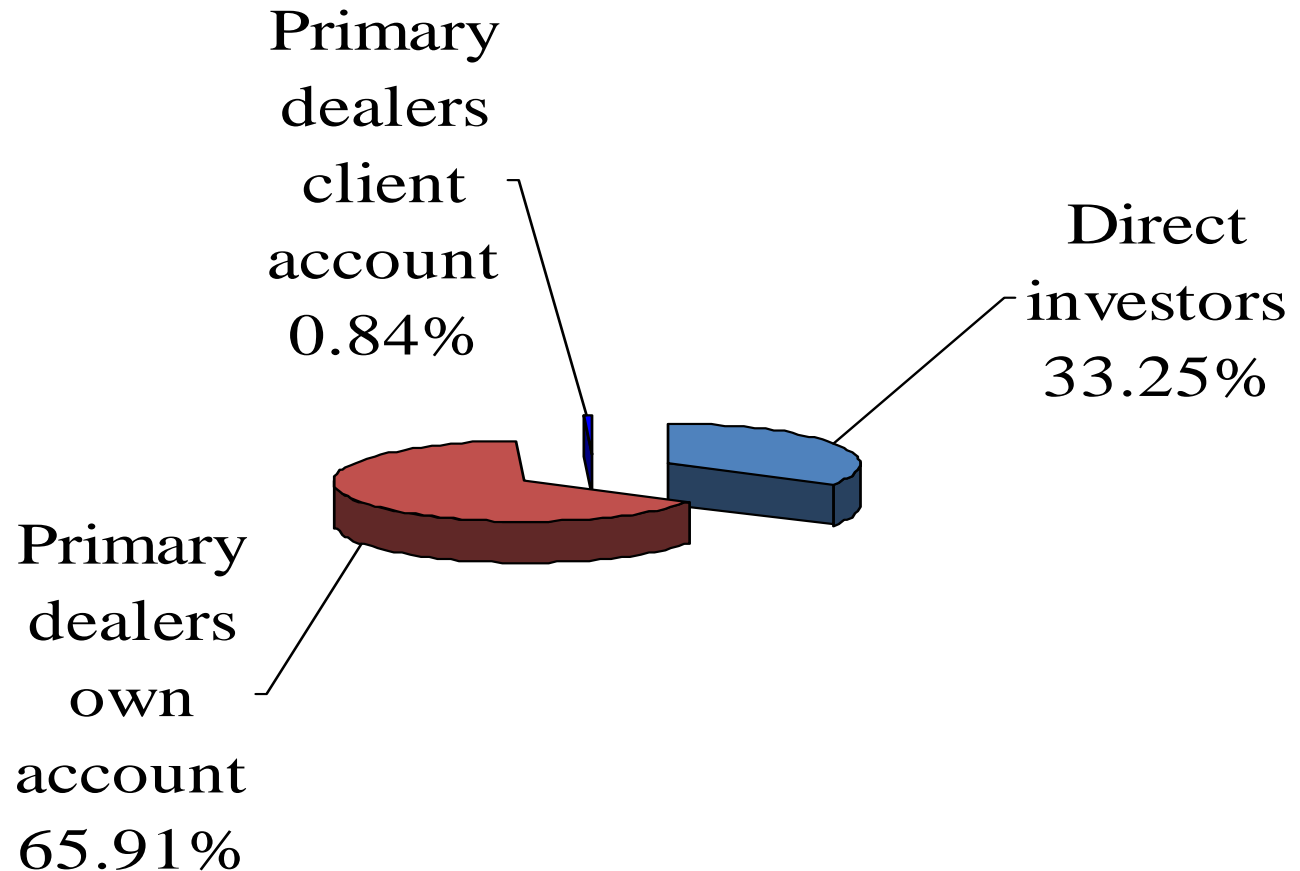
Period from 2003 - 2008

In view of the shortcomings cited above the PD system was suspended temporarily while a study to take stock of problems is underway. In the interim, this is what is on the ground:

- All investors are allowed to participate in the auctions.
- Investors who choose to channel their bids through commercial banks are allowed to do so.

- Threshold for direct investors who choose not to go through commercial banks is set at TZS 5 million.
- Auction frequency altered now held fortnightly for Treasury bills and once a month for Treasury bonds.

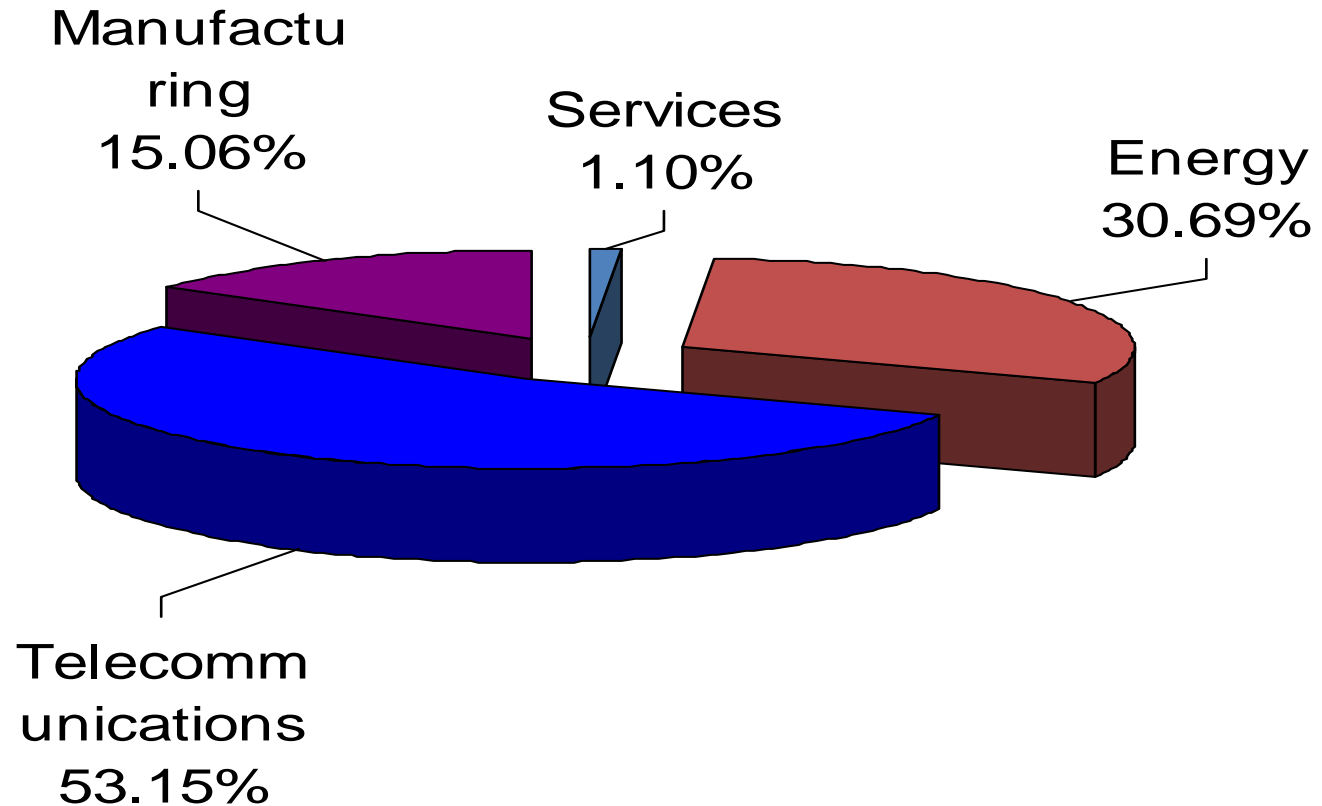
Performance of Primary Dealers 2003-2008



The role of Syndications

- Since 2007, the market has witnessed an increase in syndications, whereby several sectors of the economy have benefited from loan syndications.
- Various commercial banks pool resources and lend to a certain segment of the economy.
- Sectors involved are Telecommunications, Energy, Manufacturing and Services.

Syndicated Lending Arrangement by Sector Category 2008



Implication of syndications

- Provide an alternative investment avenue to the banks but then compete with Treasury bills.
- Funds sourced from outside the country ease importation of inputs (e.g. equipment)
- Mobilization of foreign exchange locally to fund the syndication put pressure on the domestic currency exchange rate.

Conclusion

- In order to have effective distribution of government securities through use of Primary dealers, there is a need for the Bank to adopt a balanced set of rights and obligations. The latter should be strictly enforced.
- It is also worth noting that Primary dealers are not a panacea for deep and vibrant secondary market trading in government securities.

THANK YOU