

**GUIDELINES FOR THE ISSUANCE**

**OF CORPORATE BONDS, MUNICIPAL BONDS**

**AND**

**COMMERCIAL PAPERS**

**Issued by: CAPITAL MARKETS AND SECURITIES AUTHORITY -  
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## **1. INTRODUCTION**

Bonds and commercial paper are instruments issued for the purpose of raising funds directly from investors without intermediation by banks or other financial institutions.

Commercial papers are issued to raise funds for working capital requirements whereas bonds are meant to meet long term financing requirements. The time horizon of the financial instruments determines whether it is a bond or commercial paper. The issuance of these financial instruments is critical to the deepening of the capital markets.

The Capital Markets and Securities Authority (CMSA) issues these Guidelines to provide guidance to market players in the issuance of bonds and commercial papers in the capital markets. The Guidelines also serve to clarify the regulatory roles of the CMSA and other Government authorities and agencies on the issuance of these debt financial instruments. The issuance of diverse financial instruments provides a number of financing options to corporate institutions and Local Government Authorities (LGAs) aiming at enhancing funding, which in turn helps to reduce the cost of borrowing and promote diversification of sources of long term funds in the economy as well as enhancing competitiveness of the financial sector.

### **1.1. Legal and Regulatory Oversight**

The CMSA is established under the Capital Markets and Securities Act (Cap. 79), with a responsibility inter alia to create the necessary environment for the orderly growth and development of the capital markets and to formulate principles for the guidance of the industry.

The issuance of debt financial instruments by the corporate sector and LGAs is primarily a capital markets activity and therefore falls under the regulatory jurisdiction of the CMSA. These Guidelines therefore follow, and are in addition to any provision in the Capital Markets and Securities Act (Cap. 79) that permits issuances of debt instruments. These Guidelines are designed to ensure that such issues are properly made, that full information is given to potential investors so that they may be

informed about the terms of the issue and their rights, and that any rules of the DSE and the settlement system are observed.

Commercial banks and other financial institutions licensed under the Banking and Financial Institutions Act (CAP 342) must obtain BOT clearance before seeking to issue any financial instrument.

Insurance companies must seek clearance from the Tanzania Insurance Regulatory Authority (TIRA).

LGAs must obtain approval from the Minister responsible for local government as required by the Local Government Finances Act of 1982. This Act grants the Minister responsible for local government, in consultation with the Minister responsible for finance powers to approve loans to a Local Government Authority (LGA) within the United Republic for such amounts, from such sources, in such manner, for such purposes and upon such conditions as the authority concerned may deem fit. However, an LGA seeking to invest in large infrastructure projects through a Special Purpose Vehicle (SPV) in which the Local Government Authority holds minority shares, may issue an SPV bond without clearance from the Minister responsible for Local Government Authority; provided that the liabilities arising from the investment are localized to the SPV and that no asset of the LGA would be transferred to the SPV.

## **1.2. Rationale for the Guidelines**

These Guidelines are issued by the CMSA in order to streamline the regulatory environment for the issuance of bonds and commercial papers and to ensure transparency and disclosure in the issue procedures, contents of prospectus, the conduct of advisers and arrangers of the issue, solicitation to purchasers, and in subsequent accounting and reporting to investors by the issuer.

The Guidelines recognizes the CMSA as the primary regulator and supervisor of bond issue made in Tanzania with responsibility for compliance with the East Africa Community (EAC) requirements for regional bond issuance, if it is intended that the bond be approved for subscription in other EAC member states, and for ensuring that the provisions for continuous disclosure are complied with. The Guidelines

are therefore intended to be consistent with the East African Securities Regulators Requirements for Regional Bond Issuance, adopted at the 33rd Consultative Meeting of the East African Member States Securities Regulatory Authorities.

These Guidelines serve to ensure that only issuers that qualify as issuers of debt instruments and meet the conditions defined herein may issue such instruments to the public. While the CMSA cannot guarantee that such instruments will not default, it aims at ensuring that only the best quality instruments are issued so as to protect investors.

The guidelines take into account the financial soundness of the issuers of these securities and to ensure compliance with prescribed disclosure requirements. The guidelines have been developed in order to streamline the regulatory framework for the issuance of debt instruments and to address the needs of issuers and investors to address public needs.

### **1.3. General Scope of the Guidelines**

These Guidelines covers all types of bonds and commercial papers.

A bond is a form of security generally issued for longer term financing needs. It carries a fixed or variable rate of interest and is redeemable by the issuer after a number of years.

A corporate bond is a bond issued by a body corporate.

A municipal bond is a bond issued by a Local Government Authority (LGA) or on behalf of an LGA, that is to say, a local government entity in a region, district, or urban area. These securities are issued directly to the public by way of a prospectus approved by the CMSA.

Other forms of loans such as loans from the Government of Tanzania, international organizations, development banks, the Local Government Loans Board or from banks and for which public subscription is not being invited are not subject to these Guidelines.

LGAs can issue bonds either in their own names or as participants in a Special Purpose Vehicle (SPV). An SPV bond is a special kind of corporate bond that is issued by a subsidiary corporate entity known as special

purpose vehicle. A special purpose vehicle is a subsidiary company with an asset and/or liability structure and legal status that makes its obligations secure, even if the parent entity goes bankrupt. The SPV's debts may, or may not, be covered with recourse to the "real" borrower. The equity in the SPV can be owned in whole or part by the LGA or parent company, and/or by other investors (institutions such as pension funds) and by the entity that will undertake the project, usually a construction company, which is often granted a concession by the LGA or parent company to operate the facility for a period sufficient to repay the debt incurred to cover the costs of construction and generate profit.

The types of bond are:

### ***General obligation bonds***

General obligation bonds are secured on the overall assets of the issuer and repaid from its overall revenues (grants, taxes, fees and other charges it makes). The issuer is absolutely responsible for, and cannot avoid, ensuring that the obligations created by the bond's prospectus are complied with. In the event that it is unable to do this and fails to meet interest payments when they fall due or repayment, according to the contractual schedule, it may be judged to be 'in default'. In this case, the bondholders may be able to take possession of some of the issuer's assets in order to obtain payment of any money due to them.

### ***Revenue bonds***

A revenue bond is a special type of a bond distinguished by its guarantee of repayment solely from revenues generated by a specified revenue-generating activity associated with the purpose of the bonds (like water and sewerage, roads, ports, airports, power plants, markets or other public buildings) rather than from the general revenues of the issuer.

### ***Other categories of bond***

Any other type of bond may be specially approved by the CMSA, provided that the provisions of these Guidelines relating to the purpose, content of the prospectus, disclosure and transparency are regarded as

of the same standards required for the other types of bond described above.

Commercial papers are debt financial instruments issued to raise funds for working capital requirements.

These Guidelines are divided into three broad parts:

**PART 1:** Guidelines for the issuance of corporate bonds

**PART 2:** Guidelines for the issuance of municipal bonds

**PART 3:** Guidelines for the issuance of commercial paper

## **PART 1: GUIDELINES FOR THE ISSUANCE OF CORPORATE BONDS**

### **1.1 Scope**

This part outlines guidelines intended to govern the issuance of corporate bonds. Only companies, which meet the prescribed conditions in these guidelines, may issue corporate bonds.

### **1.2 Prospectus or Offering Memorandum**

The issuer of corporate bond, shall publish a Prospectus or Offering Memorandum which complies with all the requirements for issue of debt securities as prescribed under Part XII of the Capital Markets and Securities Authority Act (Cap. 79), the Capital Markets and Securities (Prospectus Requirements) Regulations and subject to other Laws of Tanzania.

In submitting the application for issuance or listing of corporate bonds, the Sponsoring Broker is required to submit a due diligence certificate confirming that the application complies with these guidelines and other requirements. The Sponsoring Broker is required to submit a checklist indicating that information and other requirements are complied with.

### **1.3 Approval and Fees**

The Authority shall approve any issue of bonds which satisfy the requirements given in these guidelines and on payment of the fees prescribed under the fee structure of the Capital Markets and Securities Authority as approved by the Board.

### **1.4 Other Requirements**

Companies satisfying the following requirements at the outset and during the life of the bond will qualify to issue corporate bonds:-

### **1.4.1 Solvency Requirements**

#### **(i) Share Capital**

The paid-up share capital and reserves shall not be less than Tanzanian Shillings five hundred million (TZS 500 million) and shall be maintained at that level during the period the bond remains outstanding.

#### **(ii) Track Record**

An issuer shall have made profits in at least two of the last three financial periods preceding the application for the issue.

### **1.4.2 Assessment of Leverage**

#### **(i) Debt Ratios**

- a) Except for banking and financial institutions whose core activity is lending, total indebtedness of the issuer including the new issue of bonds shall not exceed 400% of the company's net worth (or gearing ratio of 4:1) as at the date of the latest balance sheet. This ratio shall be maintained at that level during the period the bond remains outstanding.
- b) For banking and financial institutions shall submit a letter of no objection the Bank of Tanzania.

#### **(ii) Ratio of Funds from Operations to Total Debt**

The ratio of funds from operations to total debt for the three trading periods preceding the issue shall be maintained at a weighted average of 40% or more.

### **1.4.3 Accountant's Report**

The Offering Memorandum must be accompanied by an Accountant's Report covering at least three years of audited accounts preceding the

issue; five year projected balance sheet and profit and loss account; and projected cash flow for subsequent 12 months following the issue.

In addition, the Accountant Report shall disclose the following ratios for the last three financial years preceding the issue:

- (i) Earnings before interest and taxes to interest expenses (interest cover)
- (ii) Funds from operation to total Debt percentage
- (iii) Free cash flow to total Debt (debt repayment cover)
- (iv) Total free cash flow to short-term debt obligations
- (v) Net profit margin
- (vi) Post-tax return (before financing) on Capital Employed
- (vii) Long Term Debt to Capital Employed
- (viii) Total Debt to Equity

#### **1.4.4 Guarantee Bond**

Where there is a guarantor the issuer may be exempted from the conditions on Solvency, Leverage and Accountant's Report stipulated above, but the guarantor shall fulfill those conditions. In the event the guarantor is a bank the consent of BOT shall be required and if the guarantor is an insurance company the consent of the Tanzania Insurance Regulatory Authority (TIRA) shall be required. In addition the guarantor shall provide CMSA with a financial capability statement duly certified by the guarantor's auditors.

#### **1.4.5 Publication of Accounts**

The issuer shall, during the period the corporate bond remains outstanding, publish in at least two reputable daily newspapers as may be designated in that behalf by the CMSA, half-yearly management accounts and audited annual accounts. One set of such published reports shall be submitted to CMSA.

#### **1.4.6 Size of Issue**

- (i) The Minimum size of the issue shall be Tanzanian Shillings One billion (TZS 1,000,000,000).

- (ii) The Minimum issue lot shall be Tanzania Shillings One Hundred Thousand (TZS 100,000).
- (iii) The minimum amount of the principal if the bond is to be listed and traded on the DSE, or in an interbank or inter institutional market, will be TZS equivalent of United States Dollars Five Hundred Thousand (USD 500,000) if it is the intention to offer the securities in other EAC member countries.

#### **1.4.7 Timing**

The offer period shall not exceed thirty (30) calendar days.

#### **1.4.8 Announcement**

The issuer shall make a public announcement in the print and electronic media at least one week before the issue opens. The contents of such announcement shall obtain the prior approval of the CMSA.

#### **1.4.9 Advisers**

The issuer shall appoint advisers for the issue from amongst licensed banks, investment advisers and stockbrokers.

#### **1.4.10 Placing Agents**

The issuer shall appoint placing agents from amongst licensed investment advisers, stockbrokers and banks.

#### **1.4.11 Receiving Bank**

The issuer shall designate one receiving bank. Payments shall be in the issuer's name and banked in a designated account.

#### **1.4.12 Registrar**

The issuer shall designate a registrar for the issue.

#### **1.4.13 Legal advisor**

The issuer shall designate a legal advisor for the issue who shall be subject to requirements of their professional body and shall be a firm registered in Tanzania or in any Partner State in case of EAC regional offers.

#### **1.4.14 Reporting Accountant**

The Reporting Accountant shall be subject to requirements of their professional body and shall be a firm registered in Tanzania or in any Partner State in case of EAC regional offers.

#### **1.4.15 Securities to be Issued**

All corporate bonds issues shall be in dematerialized form. The bonds issued shall be deposited into a central securities depository licensed by the CMSA or in case of EAC regional offers, a central securities depository established under any written law of any of the Partner States.

## **PART 2: GUIDELINES FOR THE ISSUANCE OF MUNICIPAL BONDS**

### **2.1 Scope**

These Guidelines outlined herein are intended to govern the issuance of municipal bonds, issued by LGAs in their own names or through an SPV. These Guidelines have been developed in order to streamline the regulatory framework for the issuance of Municipal Bonds and to address the needs of LGAs issuing bonds.

The issuer must be LGA recognized as a municipality or council or SPV which has been sponsored by or initiated by a municipality or council and in which the municipality or council may or may not maintain an ownership interest. The issuer will take full responsibility for ensuring that the prospectus complies with all relevant legislation and regulations and that all necessary permissions have been obtained.

### **2.2 Ultimate Responsibility**

In the case of a municipal bond issued directly by LGA, the councilors will be ultimately and technically responsible and in the case of an SPV constituted as a company, the directors of that company. In each case they will make and sign a statement of accountability with wording similar to those in the example which is shown below:

*“The Issuer accepts responsibility for the information contained in this Prospectus, except as may be otherwise stipulated. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*The Issuer confirms that this Prospectus contains or incorporates all information which is material in the context of the issue and the offering of the Bonds, that the information contained or incorporated in this Prospectus is true and accurate in all material respects and is not misleading, that the opinions and the intentions expressed in this Prospectus are honestly held and that there are no other facts the omission of which would make this Prospectus or any of such information or expression of any such opinions or intentions*

*misleading in any material respect*".

### **2.3 Prospectus or Offering Memorandum**

The issuer of municipal bond shall publish a Prospectus or Offering Memorandum which complies with all the requirements for issue of debt securities as prescribed under Part XII of the Capital Markets and Securities Authority Act (Cap. 79), the Capital Markets and Securities (Prospectus Requirements) Regulations, these Guidelines and subject to other Laws of Tanzania.

**Schedule 1** of these Guidelines provides contents of the Prospectus. The Prospectus shall include the Explanatory Notes contained under the Schedule.

The prospectus of bonds issued by LGAs in their own name or through an SPV shall, in addition to the requirements of the Capital Markets and Securities Act which public offers of securities, be subject to the additional provisions shown in these Guidelines.

No prospectus for a municipal bond of any type may be issued to the public without the approval of the Capital Markets and Securities Authority. By submitting the prospectus to the CMSA in the first instance, the issuer chooses Tanzania as the primary jurisdiction. If it is the issuer's intention to offer the securities in other EAC member states or any other jurisdiction as the case may be, the issuer would simultaneously submit the prospectus to the regulators of the other jurisdictions in which it proposes to raise capital, for approval.

Other documents and reports available for inspection will be deemed to be incorporated in, and to form part of, the prospectus. These will include, among others:

(i) **Financial Performance Projections**

The Prospectus shall contain performance projections including but not limited to profitability; cash flows; risk factors and

mitigations for the period during which the bond shall remain outstanding.

(ii) Accountant's Report

The Prospectus shall be accompanied by an External Accountant's report certifying to the reasonableness of the bases and assumptions used in the preparation of the performance projections under item 2.3.6(a) and that:

- a) The revenues of the project shall be sufficient to cover interest payments;
- b) The long term cash generated by the project shall be sufficient to repay the principal of the bond; and
- c) That there is adequate provision for funding any project cost overrun.
- d) The Reporting Accountant shall be subject to requirements of their professional body and shall be a firm registered in Tanzania or in any Partner State in case of EAC regional offers.

(iii) A trust deed if applicable.

(iv) Guarantee agreements.

(v) Memorandum and articles of association in case of an SPV.

(vi) Audited financial statements, if any.

(vii) Required authorizations by competent persons as per the respective law.

(viii) Tax clearance certificate, if applicable.

## **2.4 Size of Issue**

(i) The minimum size of the issue shall be Tanzanian Shillings One Billion (TZS 1,000,000,000)

(ii) The minimum issue lot shall be Tanzania Shillings One Hundred Thousand (TZS 100,000).

The minimum amount of the principal if the bond is to be listed and traded on the DSE, or in an interbank or inter institutional market, will be Tanzanian Shillings One Billion (TZS 1,000,000,000) or if it is the intention to offer the securities in other EAC member countries the TZS equivalent of United States Dollars Five Hundred Thousand (USD 500,000).

In submitting the application for issuance or listing of municipal bonds, the Lead Adviser is required to submit a due diligence certificate confirming that the application complies with these guidelines.

The Sponsoring Broker is required to submit a checklist indicating that information and other requirements are complied with.

## **2.5 Performance Bond and Contracts**

Where applicable, the issuer of a municipal bond shall submit to CMSA copies of the performance bond and contracts signed with contractors of the project to be financed.

## **2.6 Bridge Finance from borrowing**

The LGA or SPV may raise bridge finance from any lender for funding the project prior to the bond issue which costs must be reasonable and properly utilized for the project.

## **2.7 Approval and Fees**

The Authority shall approve any issue of municipal bonds that satisfies the requirements given in these guidelines and on payment of the fees prescribed under the fee structure of the Capital Markets and Securities Authority as approved by the Board from time to time.

An issuer of regional securities shall elect a jurisdiction within the EAC in which the issuer shall lodge the offer document to the other regulatory authorities in jurisdictions in which the issuer proposes to raise funds.

In case of EAC regional offers, the valuation fee shall be paid at the time of application to the CMSA which shall be 0.1% of the value of the issue and at all times shall not exceed a maximum of USD 200,000 and not be less than a minimum of USD 20,000.

Each competent regulatory authority approving the issue shall get an equal share of the evaluation fee and it shall be the duty of the elected primary regulatory authority to transfer to the other regulatory authorities their share of the evaluation fees paid.

In the event of a rejection, the issuer of EAC regional bond shall forfeit 25 percent of the evaluation fee paid.

## **2.8 Timing**

The offer period shall not exceed thirty (30) calendar days.

## **2.9 Announcement**

The issuer shall make a public announcement in the print and electronic media at least one week before the issue opens. The contents of such announcement shall obtain the prior approval of the CMSA.

## **2.10 Advisers**

The issuer shall appoint advisers for the issue from amongst licensed banks, investment advisers and stockbrokers.

## **2.11 Placing Agents**

The issuer shall appoint placing agent for the issue from amongst licensed banks, investment advisers and stockbrokers.

## **2.12 Receiving Bank**

The issuer shall designate one receiving bank. Payments shall be in the issuers name and banked in a designated account.

### **2.13 Registrar**

The issuer shall designate a Registrar for the issue.

### **2.14 Legal advisor**

The issuer shall designate a legal advisor for the issue who shall be subject to requirements of their professional body and shall be a firm registered in Tanzania or in any Partner State in case of EAC regional offers.

### **2.15 Reporting Accountant**

The Reporting Accountant shall be subject to requirements of their professional body and shall be a firm registered in Tanzania or in any Partner State in case of EAC regional offers.

### **2.16 Securities to be Issued**

All municipal bonds issues shall be in dematerialized form. The bonds issued shall be deposited into a central securities depository licensed by the CMSA or in case of EAC regional offers, a central securities depository established under any written law of any of the Partner States.

### **2.17 Publication of Accounts**

The issuer of a municipal bond shall, during the period the corporate bond remains outstanding, publish in at least two reputable daily newspapers as may be designated in that behalf by the CMSA, half-yearly management accounts and audited annual accounts. One set of such published reports shall be submitted to CMSA.

## **2.18 Special Conditions for Issuance of Municipal Bonds by Special Purpose Vehicles (SPVs)**

### **2.18.1 Share Capital**

The issuer of an SPV bond sponsored by an LGA shall be exempt of the requirement of the minimum share capital, provided that it can be demonstrated that adequate bridge finance is in place to complete the project for which the SPV has been formed and that there is an

assurance that bridge finance can be repaid by the bond at the completion of the project.

The Board of Directors of the SPV shall submit a statement of commitment providing an assurance on availability and adequacy of the bridge finance.

#### **2.18.2 Governance Structure**

The governance structure of the SPV Company shall be constituted in compliance with the Guidelines on Corporate Governance Practices by Public Listed Companies in Tanzania issued by the CMSA, inter alia:

- (i) The majority of the members of the Board of Directors shall be non-executive; and
- (ii) No members of the board shall hold political positions.

#### **2.18.3 Track- Record**

As a newly SPV shall be exempt of the requirement for a track record and past audited accounts. However, the issuer shall submit track records of the third parties (usually construction companies) contracted to implement the project and that of the other sponsors.

#### **2.18.4 Bridge Finance from borrowing**

The SPVs may raise bridge finance from any lender for funding the project prior to the bond issue which costs must be reasonable and properly utilized for the project.

## **PART 3: GUIDELINES FOR THE ISSUANCE OF COMMERCIAL PAPERS**

### **3.1 Scope**

This part outlines guidelines intended to govern the issuance of commercial papers. Only companies, which meet the prescribed conditions in these guidelines, may issue commercial papers.

### **3.2 Prospectus or Offering Memorandum**

The issuer of commercial paper shall publish a Prospectus or Offering Memorandum which complies with applicable requirements for issue of debt securities as prescribed under Part XII of the Capital Markets and Securities Authority Act (Cap. 79), these Guidelines and subject to the Laws of Tanzania.

In submitting the application for issuance or listing of commercial papers, the Sponsoring Broker is required to submit a due diligence certificate confirming that the application complies with these guidelines and other requirements. The Sponsoring Broker is required to submit a checklist indicating that information and other requirements are complied with.

### **3.3 Approval and Fees**

The Authority shall approve any issue of commercial papers which satisfy the requirements given in these guidelines and on payment of the fees prescribed under the fee structure of the Capital Markets and Securities Authority as approved by the Board.

### **3.4 Other Requirements**

Companies satisfying the following requirements shall qualify to issue commercial paper:-

### **3.4.1 Solvency Requirements**

#### **(i) Share Capital**

The paid-up share capital and reserves shall not be less than Tanzania Shillings five hundred million (TZS 500 million) and shall be maintained at that level during the period the commercial paper remains outstanding.

In the event that the issuer does not have a minimum paid up capital and reserves of TZS 500 million, the issuer shall obtain a financial guarantee from a bank or any other approved institution to support the issue.

#### **(ii) Track Record**

The company shall have made profits in at least two of the last three years preceding the issue.

### **3.4.2 Leverage**

#### **(i) Debt Ratios**

Total indebtedness, including the new issue of commercial paper shall not exceed 400% of the company's net worth (or gearing ratio of 4.1) as at the date of the latest balance sheet. This ratio shall be maintained at that level during the period the bond remains outstanding.

#### **(ii) The funds from operations to total debt**

For the three trading periods preceding the issue shall be maintained at a weighted average of 40% or more.

### **3.4.3 Offering Memorandum**

The Offering Memorandum must be accompanied by an Accountant's Report covering at least three years of audited accounts preceding the issue; five year projected balance sheet and profit and loss account; and projected cash flow for subsequent 12 months following the issue.

In addition, the Accountant Report shall disclose the following ratios for the last three financial years preceding the issue:

- i. Earnings before interest and taxes to interest expenses (interest cover)
- ii. Funds from operation to total Debt percentage
- iii. Free cash flow to total Debt (debt repayment cover)
- iv. Total free cash flow to short-term debt obligations
- v. Net profit margin
- vi. Post-tax return (before financing) on Capital Employed
- vii. Long Term Debt to Capital Employed
- viii. Total Debt to Equity

#### **3.4.4 Publication of Accounts**

The issuer shall publish in at least two reputable daily newspapers as may be designated in that behalf by the CMSA, half-yearly management accounts and audited annual accounts; in addition, one set of both reports should be submitted to CMSA during the period the commercial paper remains outstanding.

#### **3.4.5 Commercial Paper Programme Size**

- (i) Minimum Programme Size of the issue shall be Tanzania Shillings Three Hundred million, (TZS 300 million)
- (ii) Minimum denomination shall be in multiples of Tanzania Shillings one hundred thousand (TZS 100,000).

#### **3.4.6 Announcement**

The issuer shall make a public announcement in the print and electronic media at least one week before the issue opens. Such announcements shall obtain the prior approval of the CMSA.

### **3.4.7 Advisers**

The issuer shall appoint t advisers for the issue from amongst licensed banks, investment advisers and stockbrokers.

### **3.4.8 Placing Agents**

The issuer shall appoint placing agent for the issue from amongst licensed banks, investment advisers and stockbrokers.

### **3.4.9 Legal advisor**

The issuer shall designate a legal advisor for the issue who shall be subject to requirements of their professional body and shall be a firm registered in Tanzania or in any Partner State in case of EAC regional offers.

### **3.4.10 Reporting Accountant**

The Reporting Accountant shall be subject to requirements of their professional body and shall be a firm registered in Tanzania or in any Partner State in case of EAC regional offers.

### **3.4.11 Securities to be Issued**

All issues shall be in dematerialized form. The bonds issued shall be deposited into a central securities depository licensed by the CMSA or in case of EAC regional offers, a central securities depository established under any written law of any of the Partner States.

### **3.4.12 Receiving Bank**

The issuer shall designate one receiving bank. Payment shall be in the issuers name and banked in a designated account.

### **3.4.13 Registrar**

The issuer shall designate a Registrar for the issue.

#### **3.4.14 Guaranteed Paper**

Where there is a guarantor, the issuer may be exempted from the condition set out under item Solvency and Leverage Requirements above, but the guarantor shall fulfil these conditions. In the event the guarantor is a bank the consent of BOT shall be required and if the guarantor is an insurance company the consent of the Insurance Supervisory Department of the Ministry of Finance shall be required. In addition the guarantor shall provide CMSA with a financial capability statement duly certified by its auditors.

## SCHEDULE 1: CONTENTS OF THE PROSPECTUS

|      |                                      |  |
|------|--------------------------------------|--|
| I    | Short summary of terms of the issue: | Provides a summary of key features, terms and conditions. Where the feature annotated, greater detail is shown later                       |
| II   | Name and title of Issuer:            | XYZ Municipality/council (1) or name of the SPV  |
| III  | Purpose of issue:                    | State the purpose, use of proceeds.  |
| IV   | Amount of issue:                     | In TZS [ ] or USD [ ] if the bond is to be offered in other EAC member states.   |
| V    | Arrangers:                           | Names of arrangers and/ or underwriters, if applicable.  |
| VI   | Professional Advisors                | All the advisors set out in the prospectus.  |
| VII  | Currency:                            | Tanzanian Shillings or USD in case the bond is to be offered in the EAC member states.   |
| VIII | Denomination:                        | Bonds will be issued with a minimum denomination [000000] each.  |
| IX   | Offer period:                        | Period during which applications may be made.  |
| X    | Minimum amount of subscription:      | Minimum total subscription required and procedure for returning application monies if this is not received by the end of the offer period. |
| XI   | Procedure for oversubscription:      | Method by which subscriptions in excess of the amount of the issue will be dealt with.   |
| XII  | Receiving bank:                      | The details of the bank to which   |

subscriptions shall be paid.

- XIII      Paying agent:                      Details of the bank responsible for making interest payments.
- XIV      Interest Payable:                      Interest will be payable semi-annually in arrears on [ date ] and [date ] in each year, on the principal amount until the day before the final redemption date, with the first payment to be made on [ date ].
- XV      Interest Rate:                          A fixed rate of [ %] per annum or a floating rate of [ %] above the interest rate of the 6 month Treasury Bills issued by the Ministry of Finance of Tanzania.
- XVI      Redemption Dates:                      If there is to be phased redemption or early redemption at the option of the issuer of holders, details of timing of such redemption
- XVII      First Redemption Date:                      If there is a provision for early redemption or buy in by the issuer [ ] unless all Bonds are redeemed or purchased and cancelled by the Issuer at a prior date/s as is contemplated in the terms and conditions.
- XVIII      Final Redemption Date:                      [Date], unless all bonds are redeemed or purchased and cancelled by the Issuer at a prior date/s as is contemplated in the terms and conditions.  
Redemption Value: 100% (one hundred per cent) or other percentage of the principal amount of the bond.
- XIX      Early Redemption:                      The Issuer may redeem the bonds at their principal amount (together with accrued interest thereon) before the

final redemption date for reasons as set out in the terms and conditions.

- XX Principal Amount: The face value of each bond and after the first redemption date, the face value of each bond less the aggregate of all partial redemptions of the principal amount on the various redemption dates, up to the relevant date of calculation.
- XXI Register: The register shall be closed prior to each interest payment date and the redemption dates for the periods as described in the terms and conditions.
- XXII Taxation: If the interest is to be paid gross a statement that as at the date of this prospectus, all payments in respect of the bonds will be made [with/without] withholding or deduction for or on account of taxes levied in Tanzania. In the event that withholding tax or such other deduction is required by law as it is in Tanzania, the Issuer will deduct the relevant tax, subject to certain exceptions.
- XXIII Listing: An application was made to list the bonds on the Dar es Salam Stock Exchange under rules covering municipal bonds and bonds issued by the SPV (and or cross listed on another EAC exchange). The application was granted on [date].
- XXIV Status of the Bonds: The bonds will constitute direct, unconditional obligations of the Issuer,

secured on certain assets listed in [ list of pledged assets] partially guaranteed and unsubordinated to any other obligations of the issuer, and will rank equally in all respects amongst themselves (3).

- |        |   |   |
|--------|---|---|
| XXV    | Negative pledge:                            | Statement that further borrowing must rank pari passu. As long as any bond remains outstanding, the issuer will not create any encumbrance upon the whole or any part of its or their present or future assets or revenues to secure any of its present or future borrowings without making effective provision whereby all of the Bonds shall be directly secured equally. |
| XXVI   | Guarantee Agreement:                        | [%] of the Issuer's obligations under the bonds, for payment of the Principal Amount and interest, are irrevocably guaranteed by [name of guarantor(s)] under the terms set out in terms and conditions.  |
| XXVII  | Project management and operation:           | Name and details and qualifications of project managers, directors, top management and contracted operator.   |
| XXVIII | Trustee:                                    | The Trustee for bondholders is [ name of Trustee ].   |
| XXIX   | Audited accounts and cash flow projections: | Audited accounts for the previous three financial years and audited cash flow projections.  |
| XXX    | Status of Guarantee:                        | The obligations of each Guarantor under the Guarantee Agreement will  |

constitute unsecured obligations of the guarantors, whose details are shown later.

|         |                                     |   |
|---------|-------------------------------------|---|
| XXXI    | Governing Law:                      | The Bonds, the Guarantee Agreement and the Trust Deed will be governed by, and construed in accordance with the laws of the Tanzania, which is the primary jurisdiction for the purpose of any dispute. |
| XXXII   | Settlement:                         | Bond transactions will be cleared and settled in accordance with the rules of the Tanzanian DSE and its Central Depository [other foreign or international depositories].                               |
| XXXIII  | Terms and Conditions:               | The terms and conditions of the bonds set out in this prospectus are shown later.   |
| XXXIV   | Risks:                              | A description of potential risks that might impact on bondholders.  |
| XXXV    | Notices and reports to bondholders: | Form and content of notices and reasons for giving.   |
| XXXVI   | Meetings of bondholders:            | Reasons for holding, procedures, quorum and voting majority. Names of Major shareholders in case of an SPV.   |
| XXXVII  | Dispute resolution:                 | Procedure and forum for resolution of disputes.   |
| XXXVIII | Default:                            | Events that would constitute default and procedures for resolving it.   |
| XXXIX   | Legal Opinion:                      | As provided in these Guidelines.  |

## **Explanatory Notes**

### ***(I) The description and status of the LGA***

Here there should be a detailed description of the LGA that is to be the issuer of a general obligation bond or revenue bond or sponsor of or participant in a special purpose vehicle, including:

- (a) History of the LGA and date of formation
- (b) Its population, location and area
- (c) Its legal responsibilities for services
- (d) Its status and charter (if relevant) and relationship to central government
- (e) Its organisational and managerial structure and corporate governance, including both elected councillors and permanent officials
- (f) Its rights to ownership of land and other assets
- (g) Its right to raise revenues through taxation, charges and fees
- (h) Its strategic objectives and key delivery focus

### ***(II) Purpose of the issue (any type of bond)***

A detailed description of the projects to finance which the issue is being made, including:

- (a) Economic, environmental and social value
- (b) Endorsement by LGA council and any necessary permissions from central government or others
- (c) Project evaluation, viability and assessment ( both by the LGA itself and external experts)
- (d) Estimated costs
- (e) Availability of bridge finance to cover construction period
- (f) Cash flow forecasts

### ***(III) Assets and revenues on which the bond will be secured.***

(a) In the case of a general obligation bond

- (i) A full detailed list of all the land and buildings and other assets (including shareholdings in joint ventures or PPP projects) of the

LGA that will be pledged as security for the bond with a valuation carried out by an accredited external valuer within the previous 12 months

- (ii) Details of revenues of the LGA available to pay interest, including revenues for shareholdings and income from revenue earning projects
- (iii) The legal ability of the LGA to pledge its assets as security for the issue of a bond
- (iv) Any existing charges or pledges on all or any of the assets that would rank before bondholders in this issuer (see negative pledge)

(b) In the case of a revenue bond

- (i) Details of the specific project (s) to be financed by the bond including:
  - (ii) Feasibility studies and economic case
  - (iii) Details of the assets or revenues on which the bond will be secured with an audited projected cash flow statement, carried out by an accredited external auditor.
  - (iv) The way in which the revenues will be hypothecated for payment of interest and redemption of principal and arrangements for escrow accounts or trusteeship.
  - (v) Availability of bridge finance to cover construction period, if any.
  - (vi) In the case of a completed project, certification on satisfactory completion, inspection reports and any other approvals required, operating report on first period of operation

(c) In the case of a bond issued by an SPV

- (i) Details of the specific project (s) to be financed by the bond
- (ii) Details of the land or other assets that will be pledged as security
- (iii) Details of the projected revenues and cash flows on which the bond will be secured with an audited projected cash flow statement, carried out by an accredited external auditor
- (iv) Availability of bridge finance to cover construction period, if any.
- (v) In the case of a completed project, certification on satisfactory completion, inspection reports and any other approvals required,

#### (IV) **Guarantee**

The proportion of the issue that is to be guaranteed (if less than 100% show percentage)

- (a) Names and details of guarantor(s)
- (b) Its credit rating if available
- (c) Its financial information, balance sheets and revenues for previous three years
- (d) Confirmation of status by guarantor's primary regulator (except in the case of an international financial institution)

Circumstances in which the guarantor will be obliged to make payments under the guarantee agreement

#### (V) **Project management and operation**

Only in the case of a revenue bond or a bond issued by a special purpose vehicle.

- (a) In the case of a revenue bond
  - (i) The details of the external project manager including:
  - (ii) Contractual status and payments
  - (iii) Financial details of the project manager, including audited accounts for the previous three years (not more than one year old)
  - (iv) Details of the concessionaire and contractual obligations if different from the project manager
- (b) In the case of a bond issued by a special purpose vehicle
  - (i) Details of the special purpose vehicle, including:
  - (ii) Its form and structure (company or trust); formation document
  - (iii) Ownership, shareholdings
  - (iv) Details of shareholders
  - (v) Directors and management
  - (vi) Contracts and agreements with project managers, construction companies and concessionaires

## ***(VI) Trustee for bondholders***

If there is a trustee for bondholders to oversee payments and to maintain segregated accounts for the payment of interest and principal, details of:

- (a) The organisation, its location and regulatory status
- (b) Confirmation of status by guarantor's primary regulator (except in the case of an international financial institution)
- (c) Their financial information, balance sheets and revenues for previous three years

## ***(VII) Financial information on issuer***

- (a) In the case of a general obligation bond or a revenue bond
  - (i) Unqualified audited accounts of the LGA as issuer for the previous three years (not more than one year old)
  - (ii) Statement of any qualifications, either by statutory auditor or auditor general or any other opinions expressed by any government organ relating to financial management of the LGA
  - (iii) If more than one year old, a set of audited management accounts dated not more than 6 months previously
- (b) In the case of a bond issued by a special purpose vehicle
  - (i) Cash flow forecasts: audited projected cash flow statement, carried out by an accredited external auditor, showing projected revenues and costs
  - (ii) Estimated value of completed project made by a qualified external valuer
  - (iii) Availability of bridge financed and terms for repayment

## ***(VIII) DSE listing***

Listing on the DSE will be subject to DSE listing rules applicable to bonds issued by an LGA in its own name and by an SPV sponsored by an LGA.

## ANNEX 1: FINANCIAL RATIOS

The financial ratios have been defined below to ensure that all issuers prepare them on a consistent and comparable basis.

- i. Earnings before interest and taxes (EBIT) interest cover

$$\text{EBIT interest cover} = \frac{\text{EBIT for the period}}{(\text{Interest payable for the period} + \text{any preference dividend payable for the period})}$$

This is the extent to which interest is covered by profits before interest (payable) and taxes.

EBIT is after interest earned and income from investments during the period. Interest payable for the period is defined as interest payable on all long-term and short-term debts for the period (i.e. interest paid and accrued).

- ii. Operating cash flow to total debt percentage

$$\text{Operating cash flow to total debt ratio} = \frac{\text{funds generated from Operations in the period}}{\text{Average total debt during the period}} \times 100\%$$

This is the extent to which debt is covered by the cash generated from operations during the period.

- iii. Free Cash flow to total debt percentage

$$\text{Free cash flow to total debt} = \frac{\text{free cash flows for the period}}{\text{Average total debt during the period}} \times 100\%$$

This is the extent to which debt is covered by free cash flow available for the period.

- iv. Total free cash flow to total short term debt obligations

$$= \frac{\text{total uncommitted cash flows for the period}}{\text{total short-term debt obligations at the end of the period}} \times 100\%$$

This is the extent to which all short-term obligations are covered by total

uncommitted cash flows measured as a percentage.

Total uncommitted cash flow is defined as free cash flow for the period plus any cash and cash equivalents at the end of the period.

Cash equivalents are defined as highly liquid assets, convertible into known amounts of cash without notice and have insignificant risk of changes in value owing to changes in interest rates. A reasonable cut-off for cash equivalents is represented by a three-month (or less) maturity from date of acquisition.

Short-term debt obligations at the end of the period are defined as:

- Bank loans and overdrafts,
- Current portions of long-term liabilities,
- Other payables, but excluding accounts and notes payable (trade), taxes on income, dividends payable and other payables and accrued expenses which are of a non- financing nature.

v. Net profit margin

Net profit margin = (net profit for the period/total sales for the period) x 100%

This is a measure of profitability.

Total sales turnover for the period represents the total gross sales net of indirect taxes such as VAT.

Net profit is as defined in the glossary but must be stated after charging depreciation on the gross carrying value of the fixed assets.

vi. Post-tax return (before financing costs) on capital employed

Post-tax return = (Profit after tax but before Financing costs for the Period) x100%

(Average Capital employed for the period)

This measures the actual percentage rate of return to the "owners" of the capital (both equity and debt holders).

Profit after tax for the period is stated after exceptional items but before extraordinary items and interest payable.

Capital Employed is defined as: shareholders' interest + minority interest + non-equity shares at Liquidation value + long term debt.

Shareholders' interest is made-up of paid-up capital and all reserves (i.e. revenue and capital reserves, including revaluation reserves).

**Note:** Where extraordinary items can have a significant impact, the ratio should also be computed using profit after tax, extraordinary items and exceptional items but before financing costs.

**vii. Long-term debt to capital employed ratio**

$$\text{Long-term debt to Capital employed ratio} = \frac{\text{average long-term debt outstanding during the period}}{\text{average equity} + \text{average long-term debt for the period}}$$

This measures the level of debt in relation to capital employed - the financial leverage, stated as a percentage

**viii. Total debt to equity ratio**

$$\text{Total debt to equity ratio} = \frac{\text{average short-term debt outstanding} + \text{average long term debt outstanding during the period}}{\text{average equity for the period}}$$

This is also termed as the gearing ratio, measures the level of debt compared to equity, stated as a factor x:1.

Equity net worth (defined in the glossary).

**ix. Funds from operations to debt Percentage**

$$\text{Funds from operations to debt} = \frac{\text{funds generated from operations In the period}}{\text{Average total debt during the period}} \times 100\%$$

**x. Free cash flow to debt repayment cover**

$$\text{Free cash flow to debt repayment cover} = \frac{\text{free cash flow for the period}}{(\text{Interest payable} + \text{preference dividend} + \text{principal repaid during the period})}$$

This is the extent to which total debt is covered by cash flow available for the period.

Free cash flow is defined in the glossary. Debt repayment includes any obligations on total debt that are due within the period.

## **ANNEX 2: GLOSSARY**

The glossary is designed to provide clarity to the terms used in the guidelines and the computation of the financial ratios.

### **Adviser or Sponsoring Broker**

In relation to an issue of securities means a corporate person licensed by the CMSA to be engaged in the provision of financial services which deals in securities whether debt or equity and has been contracted by an issuer as a lead adviser to an issue of securities.

### **Average over the period**

This is defined as the average of the opening and closing balances for that period. Alternatively, where the debt profile changes significantly during the year, it would be more appropriate to compute a weighted average over the period using month-end or quarter-end balances. The basis of computation should be disclosed.

### **Bond**

A bond is a debt instrument with a maturity of one year or more, and evidence of a loan extended by a creditor to a corporation or other borrower such as a government or local authority. The borrower is obligated to pay the bondholder a specific interest at specific intervals, and to repay the principal amount of the loan at maturity. Bonds signify indebtedness of the issuer to the bondholder but do not have corporate ownership privileges as shareholders. The terms of the contract are normally contained in the bond indenture or trust indenture.

### **Bond Insurer**

An insurance company which insures an issuer of securities against risk of default in payment of interest and payment of principal due under a guaranteed bond

## **Commercial Paper**

Commercial paper is a debt instrument with a maturity of less than one year and is evidence of loan extended by a creditor to a corporation.

## **Free Cash flow**

This is defined as operating cash flow for the period less income tax paid and net capital investment.

## **Guarantor**

Means any person who guarantees to bond or commercial paper holders payment of interest and repayment of principal due under a guaranteed bond or paper respectively

## **Guaranteed Bond**

Means a bond which is guaranteed as to payment of interest and repayment of principal by a third party who may or may not be related to the issuer but is usually larger, better known or more credit worthy than the issuer, or guaranteed by means of a contract of insurance

## **Guaranteed paper**

Means a commercial paper which is guaranteed as to payment of interest and repayment of principal by a third party who may or may not be related to the issuer but is usually larger, better known or more credit worthy than the issuer or guaranteed by means of a contract of insurance

## **Issue**

Any security of a legal entity, offered for distribution.

**Issuer**

A legal entity whose securities are offered for sale or distribution

**Lot**

A given number of units of a security

**Net worth (equity)**

This represents the worth of the company after all obligations are met. Thus it may be defined as paid-up share capital plus all reserves (i.e., revenue and capital reserves, including revaluation reserves).

**Net profit**

This is defined as the net profit for the period after the tax and extraordinary and exceptional items.

**Offer Document**

This is a document prepared by the issuer to provide information about the issue and in compliance with disclosure requirements whether in the form of a prospectus or an information memorandum.

**Offer period**

This is the period between the time an issue is offered to the public and the time the offer closes.

**Operating cash flow (funds generated from operations)**

According to International Accounting Standard 7, Operating cash flow is defined as net profit (see below) for the period as adjusted for the effects of:

-Changes in working capital (stocks, trade debtors and creditors)

during the period;

-Non-cash items such as depreciation, foreign exchange (gain)/loss, (gain/loss or disposal of fixed assets, provisions, deferred taxes, etc.

-All other items for which the cash effects are investing or financing cash flows or returns on investment or servicing of finance, such as dividend income, interest paid, or interest received.

### **Paid-up Share Capital**

This represents ordinary shares (equity shares), which have been issued and fully paid for, but excludes all non-equity shares except for non-redeemable preference shares.

### **Period**

The term is defined as the period for which the financial statements are made up. This must not exceed 18 months and must not be less than 3 months. For example, the longest period would be 1<sup>st</sup> January 2019 to 30<sup>th</sup> June 2020 and the shortest period would be 1<sup>st</sup> January 2019 to 31<sup>st</sup> March 2019.

### **Profit for the purpose of determining eligibility for issuing debt**

Profit for-this purpose is the net profit before minority interests,

### **The latest available balance sheet date**

Where the latest annual audited financial statements are made up to a date more than six months prior to launch date e.g., latest audited financial statements are for 12 months to 30<sup>th</sup> June 2019 for a bond issue to be launched on 31<sup>st</sup> March, 2020, then:

Management should disclose the un-audited balance sheet date to a date less than six months prior to the launch date (say 31 December 2019) and financial results and cash flows for the period from the last audited financial statements to that date (6 months to December 2019).

- (1) Disclose the financial ratios for that period (6 months to 31<sup>st</sup> December 2019) on a 12-month equivalent basis. The balance sheet, profit & loss and cash flows for the "notional" first six months should be extrapolated. The extrapolation should be on a straight-line basis where there are no significant seasonal trends. Where there are significant seasonal trends identified in the previous period, then the extrapolation should be weighted accordingly.

### **Total Indebtedness**

This is represented by both long-term debt and short-term debt.

Long-term debts are any amounts outstanding on commitments that are repayable after more than one year. Examples include:

- term loan
- bonds issued
- non-equity shares outstanding e.g. redeemable preference shares
- long-term lease obligation
- parent company loan/director loan/shareholder loan\*\*

For these items, analyse the amounts as:

- amounts falling due within 2-5 years
- amounts falling due after 5 years

Short-term debts are any amounts owed that have a maturity period of less than a year or which are repayable

on demand but exclude normal trade creditors and other creditors. Example includes:

- overdrafts
- current portion of long term debt commercial paper
- certificate of deposit (COs) issued
- parent company loans/director loans/shareholder loans\*\*
- trade credit facilities from related parties which are in excess of normal industry credit terms\*\*\*

\*\* these amounts would be classified as long-term debt provided that there is an agreed repayment schedule for interest and principal that is being adhered to, otherwise the amounts would be classified as short-term debt.

\*\*\*for example, if the amount outstanding on a trade credit from a related party is equivalent to 90 days worth of purchase while normal industry terms are 30 days. An amount equivalent to 60 days worth of purchases should be classified as short-term debt.

Disclosure should also be provided of future significant/material cash obligations that are not already reflected on the balance sheets as a liability (i.e., off-balance sheet items), such as:

- Contracted obligations, commitments for the next 12 months;
- capital commitments that have been contracted for but not provided for on the balance sheet and those authorized but not contracted;
- Contingent liabilities;
- Contracted amounts payable under sale and repurchase

agreements not recognized in the balance sheet, e.g.,  
sale and leaseback of fixed assets;

The disclosure of these future obligations should also be  
classified as those falling due within one year and those  
falling due after one year.