



THE DOMESTIC GOLD PURCHASE PROGRAM

26th February 2025, Cape Town, South Africa

Presented By: Anna G. Lyimo, PhD
Head, FX Reserves Mobilization & MGT
Bank of Tanzania

Contents

Introduction

Gold Trading Ecosystem in Tanzania

Procedures & Guidelines

Risk and Other Key Issues

Achievements & Challenges





INTRODUCTION - Reserve Management

➤ Achievements

- ✓ Sufficient to cover statutory target of import cover
- ✓ Meet all the objectives of Managing Reserves

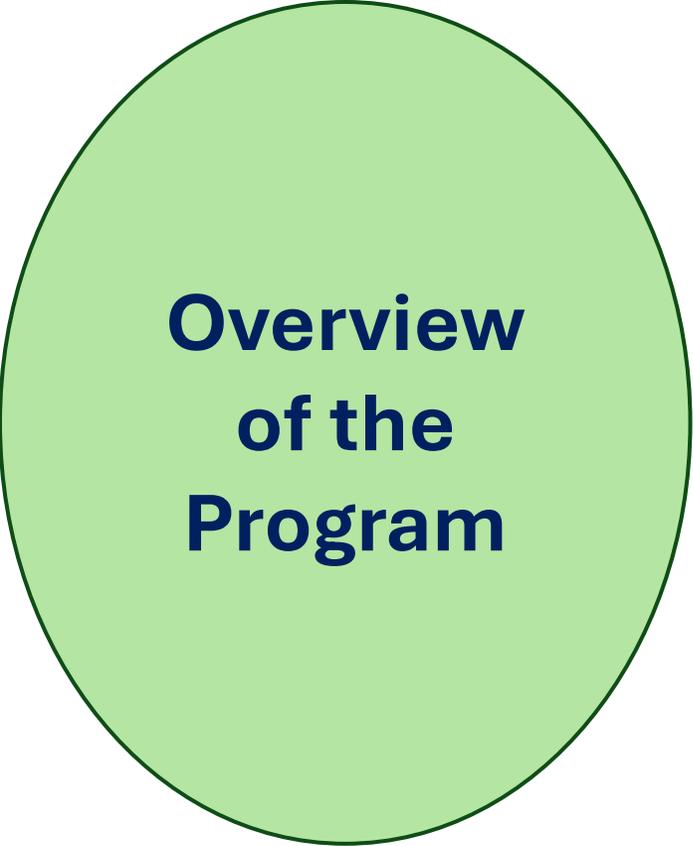
➤ Challenges

- ✓ Market Volatility
- ✓ Fluctuating reserve levels

➤ Strategic Alternatives to Enhance FX Reserve Sources

- ✓ Strengthen the interbank FX intervention policy
- ✓ Purchase FX from parastatals & Conduct FX Swap
- ✓ Improve Government credit rating for international market access
- ✓ Remove restrictions on capital flows; Leverage diaspora contributions & Issue Eurobond
- ✓ Establish a domestic gold purchase program

Intro Cont...



Background:
The Bank had gold reserve (2.46 tons) from 1990s to 2003 at BOE through purchasing unrefined gold



Problem:
Fraud, high inflation, inadequate quality assurance and valuation losses due to price volatility



Current Solution:
Gold deposit discoveries; mining sector reforms; improved quality assurance; domestic refineries



Cost-benefit analysis:
Strengthening the mining sector while building relatively cheaper foreign reserves

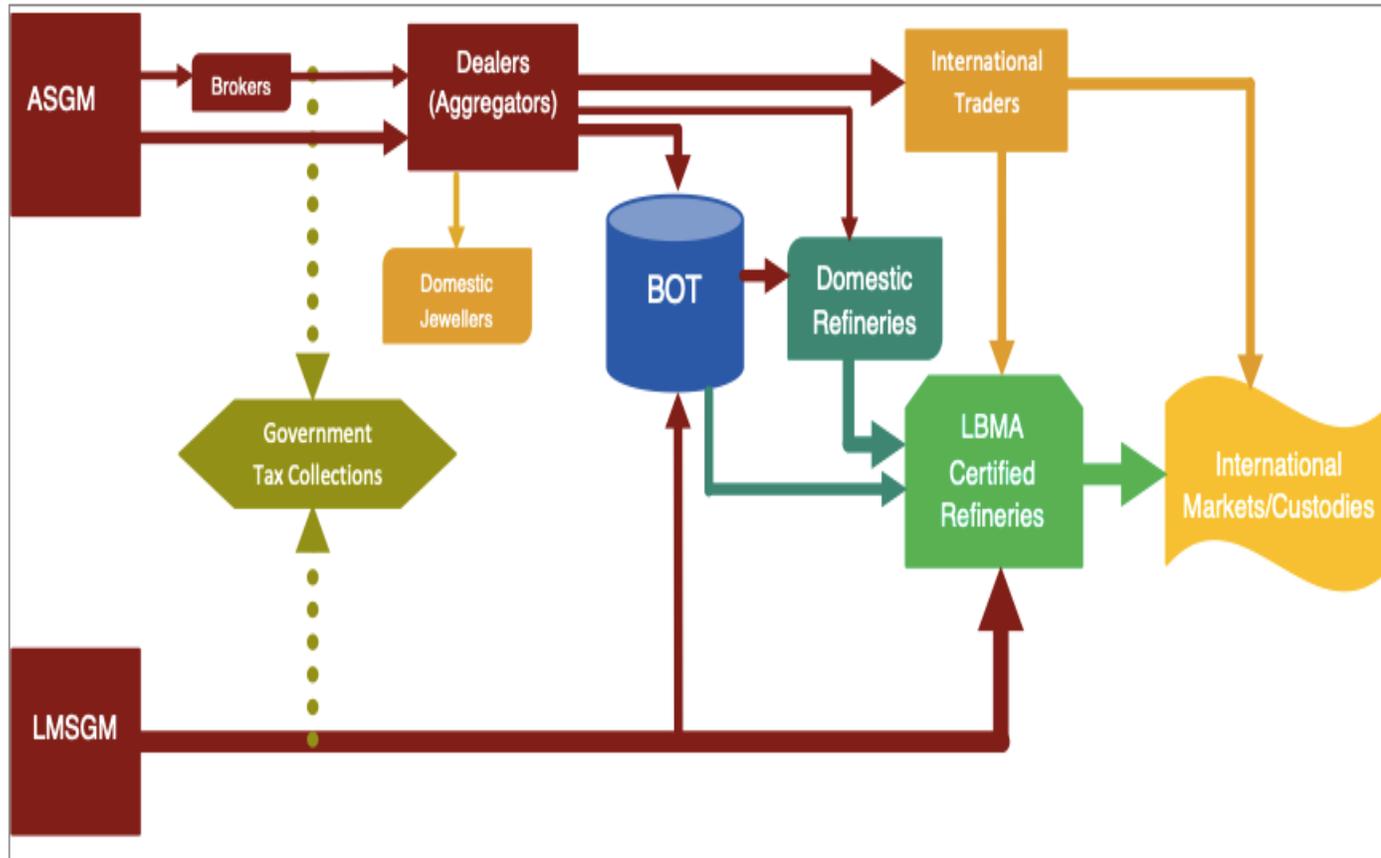


Recommendations:
Purchase the unrefined gold from the domestic aggregators using local currency



Objectives:
Enhance FX Using Local Currency
Diversify FX Reserves Portfolio

Gold Trading Ecosystem



- **Structure and Roles of Stakeholders**

- Structure of the trading ecosystem

- Gold Miners, Domestic Gold Markets, Gold Exports

- Roles and responsibilities of key stakeholders

- Govt, Mineral Right Holders, Gold Markets, Domestic Refineries, LBMA Certified refineries, International Custodians

- Integration of the DGPP

- BOT, Mineral Right Holders, Domestic Refineries, International Custodians

Procedures & Guidelines - Purchasing Options

1

Purchase certified gold from domestic refineries



2

Purchase refined gold to 99.9 % purity, uncertified from domestic refineries



3

Purchase unrefined gold from ASGMs using selected aggregators



Procedures & Guidelines - Key Elements

- **Scope:** All active mineral rights holders
- **Verification:** Licensed Local or International Refineries
- **Price:** LBMA price on the date of receiving
- **Payment:** Within 24hrs upon delivery
- **Delivery mode:** Loco-swapping and physical delivery,
- **Custodians:** BoE, BIS & Domestic Vaults
- **Regulations:** Enabling the regulatory environment
- **Policy consideration-** compliant with RMIs, tracing the reliable source & ESG
- **Accounting for gold:** Non-momentary gold as inventory & Monetary gold as reserve assets

Procedures & Guidelines - Reserve Mgt Framework

- **Governing documents:**
 - Foreign Reserves Management Policy (Investment Policy)
 - Strategic Asset Allocation (SAA) and Benchmarks
 - Investment Guidelines
 - DGPP Operational Manual & Its Guidelines

- **Functional Units/Reserve management activities:**
 - Portfolio Management (front office)
 - Performance Measurement & Reporting (middle & back office)
 - Reserves Mobilisation & Management (Gold Purchase Desk)
 - Risk Management
 - Information Technology
 - Internal Audit

Risks & Other Key Issues



Key Issues to Consider

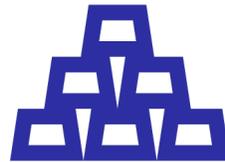
Regulatory Framework: Legal Compliance; Licensing & Transparency

Supplier Selection: Reliability; Sustainable & Ethical Sourcing.

Quality Control: Purity Verification

Storage and Security: Storage Facilities, Insurance & Transportation

Operational Issues: Effective Budgeting & Operational Efficiency



Risks Associated with DGPP

Market Risks: Price Volatility & Liquidity Risk

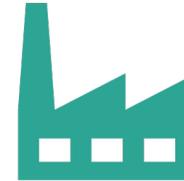
Operational Risks: Security & Quality Risks

Regulatory & Compliance Risks: Legal Risks & Transparency

Financial Risks: Cost Overruns & Funding Risks

Reputational Risks: Supplier Reliability & Public Perception

Supply Chain Risks: Lack of Local LBMA-accredited refineries.



Mitigation Strategies

Diversification: Different Suppliers

Risk Management: Robust risk mgt strategies and contingency plans.

Audits and Inspections: Regularly audit and inspect gold holdings & processes.

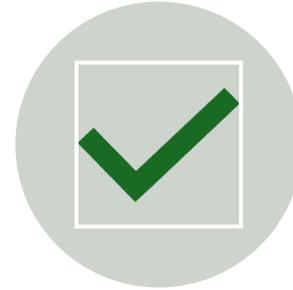
Stakeholder Engagement: Engage stakeholders, including the public and regulatory bodies to maintain trust and transparency.

Risk-Return Consideration



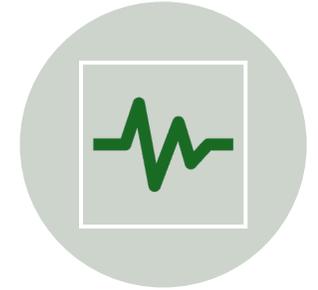
COST OF THE PROGRAM:

Refining and swapping fees, incentives & mopping up costs (proxy T-bills rate currently at 12%),



RISK APPETITE & BUDGET:

Max of 5% chance of negative returns & active returns 30 bps per annum.



OTHER BENEFITS:

Supply of forex, value addition, boost local refineries & local gold market, & monetary policy tool: permanent injection of liquidity akin to QE

Achievements & Challenges



- ✓ **Achievements:** Increased gold reserves, improved economic stability, value addition, and integration of the Gold Sector.
- ✓ **Challenges:** Financial hurdles, supply chain issues, regulatory challenges, lack of domestic LBMA-Credited Refineries.
- ✓ **Proposed Solutions:** Guarantee ASGM loans, purchase from ASMs & LSGM & incentivize local suppliers.

Strategies to Increase Gold Supply

Regulatory Reforms

- VAT Zero-rated, royalty & inspection fees

Enhance Gold Supply for Purchase

- State-owned mining co & pre-finance
- Mining Co. (dividend, royalty & 20% sell)

Operationalize Regulations

Kick-start the National Gold & Gemstone Reserves

Demarcate and Capitalize

- Conduct nationwide exploration and prioritize gold-rich areas.
- Allocate funds for surveys & exploration

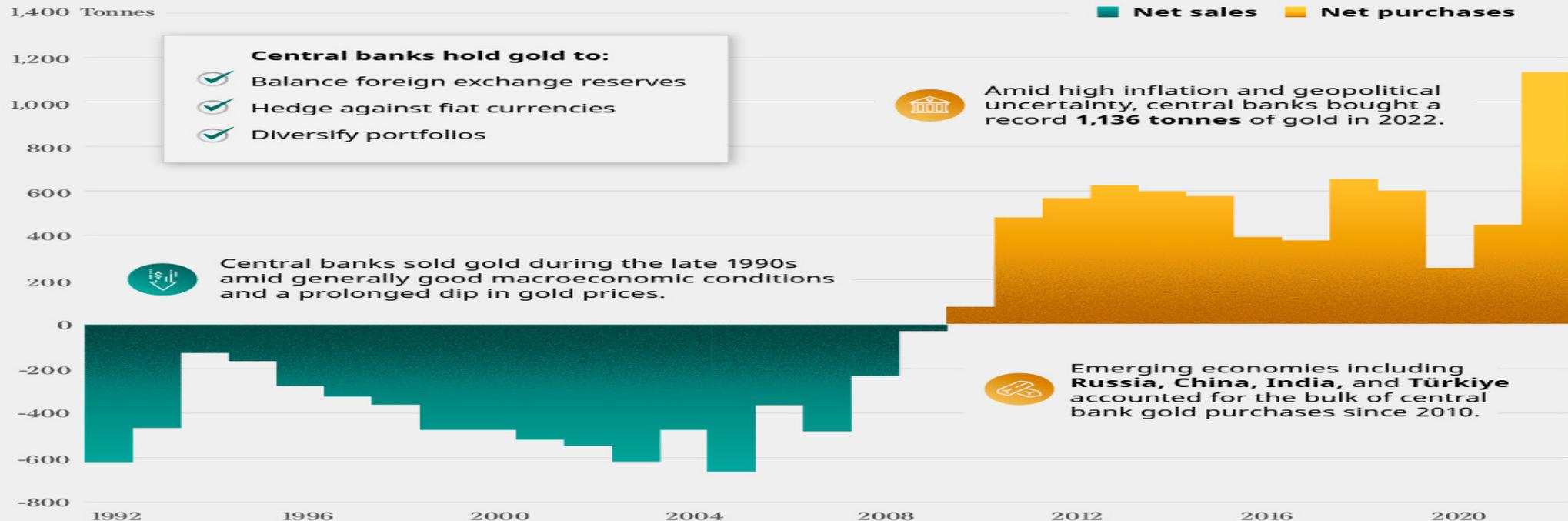
Enhance Financial Access

- Raise awareness about CGS operations.
- Establish a Specialized Fund to support local gold suppliers.



30 Years of CENTRAL BANK GOLD DEMAND

Between 1992 and 2022, central banks switched from being net sellers of gold to stockpiling it.



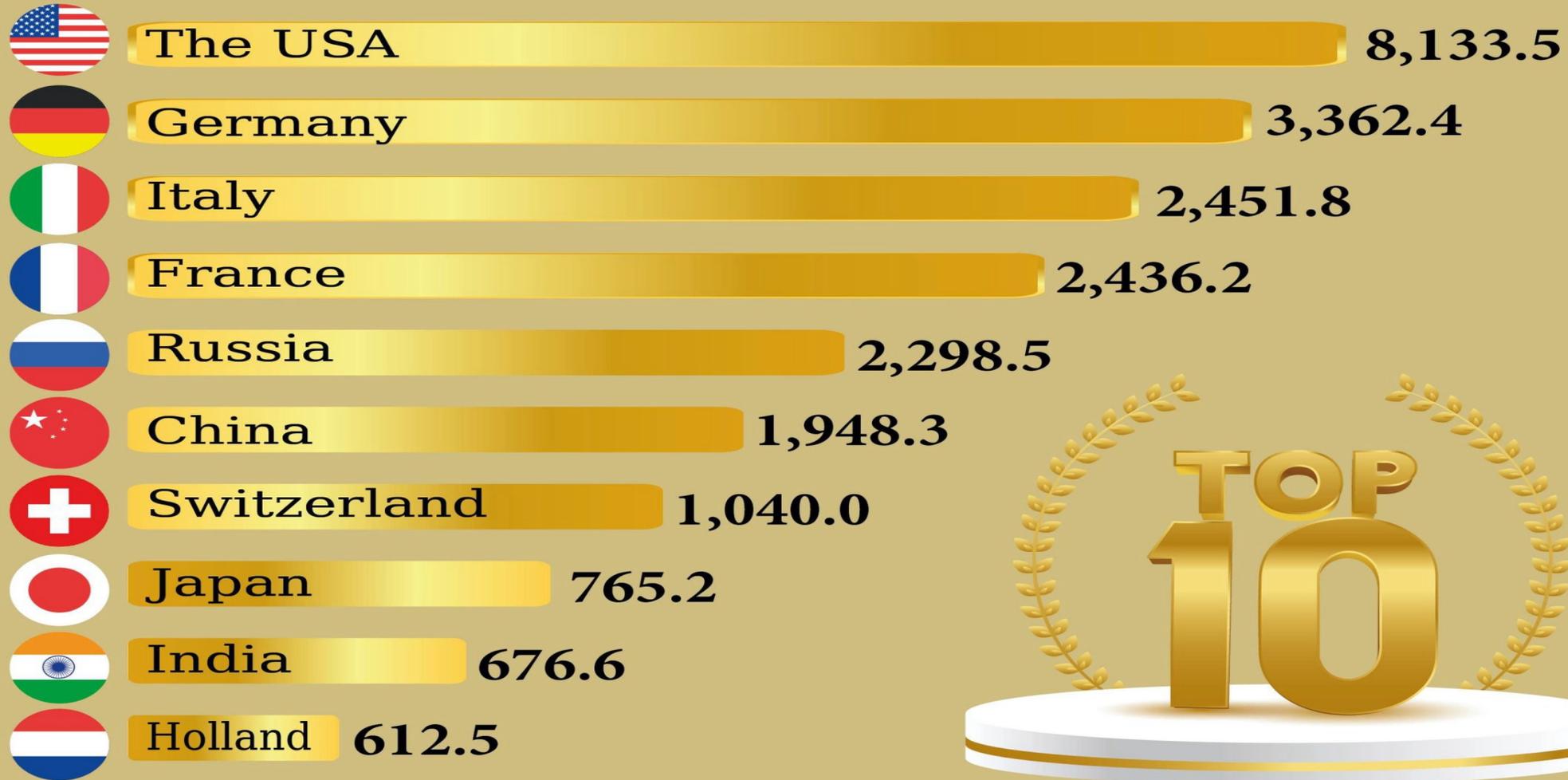
Data as of 31 December 2022.

Source: Gold World Council, 2023

- Gold has served as a longstanding benchmark for value.
- The value of gold as a commodity is influenced by its availability, quantity, and market assessment of price trends.
- Gold reserves are employed to weather economic downturns, as exemplified in Russia in 2022 and Ghana in 2023.

10 countries with the largest gold reserves in the world

*The numbers are in tons



Main Reason A historically stable & safe investment



A long-term profitable investment



A safeguard against inflation and uncertainty



A store of value for savings



Gold is precious and valuable



Demand for gold is growing



Gold is not the preserve of kings

