



Capital Markets Authority
Protecting Your Investments

CAPITAL MARKETS PLAYERS SURVEY 2013



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US \$ CONVERSION RATES

	2013	2012
Ush	2,586.88	2,504.54
Ksh	86.13	84.52

ACRONYMS

CMA	Capital Markets Authority
EAC	East African Community
SCD	Securities Central Depository
USE	Uganda Securities Exchange

EXECUTIVE SUMMARY

Economic growth in a modern economy hinges on efficient capital markets that pool domestic savings and mobilize foreign capital for productive investment. In the absence of efficient capital markets, productive projects will remain unexploited due to lack of long term financing.

The capital markets industry in Uganda came into being in the year 1996 with the enactment of the Capital Markets Authority (CMA) Act Cap 84. The CMA Act established the Capital Markets Authority which paved the way for the licensing of the Uganda Securities Exchange (USE) in 1997. At the end of December 2013, the Ugandan capital markets had **23** market players with **eight (8)** being Broker/Dealers, **seven (7)** Fund managers, **three (3)** Trustees, **one (1)** securities exchange and **seven (7)** Investment Advisors.

Main Findings

Industry Size

The industry size was assessed by focusing on: the asset base; distribution network; employment trends; and total client base. In 2013 the total asset base for the industry grew by forty eight percent (48%) to stand at **Ush 10.71 billion (US \$ 4.11 million)** from **Ush 7.21 billion (US \$ 2.88 million)** in 2012. In comparison, Kenyan market players reported a growth of over sixteen percent (16.95%) in balance sheet assets to close 2013 at **US \$ 230.28 million** from **US \$ 196.87 million** at the end of 2012. The Market Players reported having a total of **115** employees from **106** employees, an increase of nine percent (9%). The capital markets industry had a client base of **16,751** retail and institutional clients.

A total of ninety three percent (93%) of all the Market Players surveyed were subsidiaries of other companies with thirty three percent (33%) of the subsidiaries having their parent companies in Kenya. All the Market Players had their offices in Kampala with none having branches outside Kampala.

Industry Performance

Industry performance was assessed by looking at turnover; profitability; industry costs and cash-flows. The industry posted an increase of seventy seven (77%) and over fifty two percent (52.44%) in turnover and total costs to **Ush 7.98 billion (US \$ 3.08 million)** and **Ush 7.13 billion (US \$ 2.68 million)** respectively in 2013. The market players had recorded a turnover of **Ush 4.52 billion (US \$ 1.08 million)** and a costs of **Ush 4.71 billion (US \$ 1.88 million)** in the previous year. Kenyan market players on the other hand had a forty eight percent (48%) increment in turnover to **US \$ 95.73**

million from **US \$ 64.52 million** in 2012. Their costs also rose by 23% to stand at **US \$ 62.85 million** from **US \$ 51.03 million** in 2012.

The industry posted a more than three-fold increase in income to **Ush 452.94 million (US \$ 0.19 million)**, from a loss of **Ush 193.28 million (US \$ 0.08 million)** recorded previously. In Kenya, market players posted a growth of over one hundred percent (108%) in profitability to **US \$ 28.27 million** from **US \$ 13.56 million** in 2012.

The Cost of Doing Business in the Capital Markets Industry

In surveying the cost of doing business, the focus was on aspects such as: licence renewal; inspections; approval of public offerings; licence fees; and the preparation process for inspections. Market players surveyed reported that it took an average of twenty four (**24**) working days for their licenses to be renewed from the time they submitted their application to the time they received the licences. Market Players reported that the CMA inspection teams spent an average of one (**1**) working day at their premises during inspections. The shortest period spent on preparations for inspections was one (**1**) working day, while the longest period was two (**2**) working days in 2013.

Participation of Citizens of the East African Community (EAC) in Uganda's Capital Markets

A total of ninety three percent (93%) of all the Market Players surveyed were subsidiaries of other companies with thirty three percent (33%) of the subsidiaries having their parent companies in Kenya. A total of one thousand, two hundred and sixty one (**1,261**) clients representing eight percent (8 %) of the total registered clients were from the East African region. Kenyan investors accounted for the bulk of the EAC region investors at ninety five percent (95%).

Other Market Indicators

All the market players indicated that they had a Board of Directors. The average number of Directors per board was five (**5**), with the least number of Directors being two (**2**) in 2013, similar to the 2012 findings. In contrast, the largest Board had seven (**7**) Directors in 2013, compared to nine (**9**) reported in 2012

A large number of the market players (93%) undertook market research and analysis with nine (**9**) of them distributing their publications.

CHAPTER ONE: INTRODUCTION

1.1 Brief Background on the Capital Markets Industry in Uganda

Economic growth in a modern economy hinges on efficient capital markets that pool domestic savings and mobilize foreign capital for productive investment. In the absence of efficient capital markets, productive projects will remain unexploited. This effectively cuts economic growth from what would have been possible given the presence of efficient capital markets. Stimulating economic growth and development requires long term funding, far longer than the duration for which most lenders and savers are willing to commit their funds and this constitutes a barrier to economic growth. In this regard, the capital markets provide an avenue for the mobilization and utilization of long-term funds for development.

The capital markets industry in Uganda came into being in the year 1996 with the enactment of the Capital Markets Authority (CMA) Act Cap 84. The CMA Act established the Capital Markets Authority which paved the way for the licensing of the Uganda Securities Exchange (USE) in 1997. At the end of December 2013, the Ugandan capital markets had **23** market players with **eight (8)** being Broker/Dealers, **seven (7)** Fund managers, **three (3)** Trustees, **one (1)** securities exchange and **seven (7)** Investment Advisors.

Since inception, the capital markets in Uganda have witnessed the listing of sixteen (**16**) companies, eight (**8**) of which are cross listings from the Nairobi Securities Exchange (NSE). To date twelve (**12**) corporate bonds valued at **Ush 293.76 billion (US \$ 113.56 million)** have been issued. Six (**6**) of these bonds have been redeemed. The government of Uganda also launched a government bond program in 2004 and at the end of 2013, there were forty two (**42**) Government Bonds listed at the USE.

1.2 Capital Markets Industry Performance 2012

1.2.1 Debt Markets

Primary Market

Leading sugar miller, Kakira Sugar Limited issued a **Ush 75 billion (US \$ 30 million)** Medium Term Note (MTN) on 9th December 2013. The 10 year note program was fully subscribed and taken up in one tranche, an indicator of the high liquidity and demand for corporate debt in the Ugandan capital markets. The proceeds of the note issue will be utilized in the completion of the modernization program for the organization's factory and expansion of power output under a co-generation program.

Secondary Market

The secondary market for corporate bonds posted a turnover of **Ush 10.10 billion (US \$ 3.90 million)**, an increase of 2.12% from **Ush 9.89 billion (US \$ 3.95 million)** that was transacted in 2012. Only the Stanbic bank corporate bond traded in 2013, while in 2012, Housing Finance Bank, Stanbic Bank and East African Development Bank bonds traded.

1.2.2 Equity

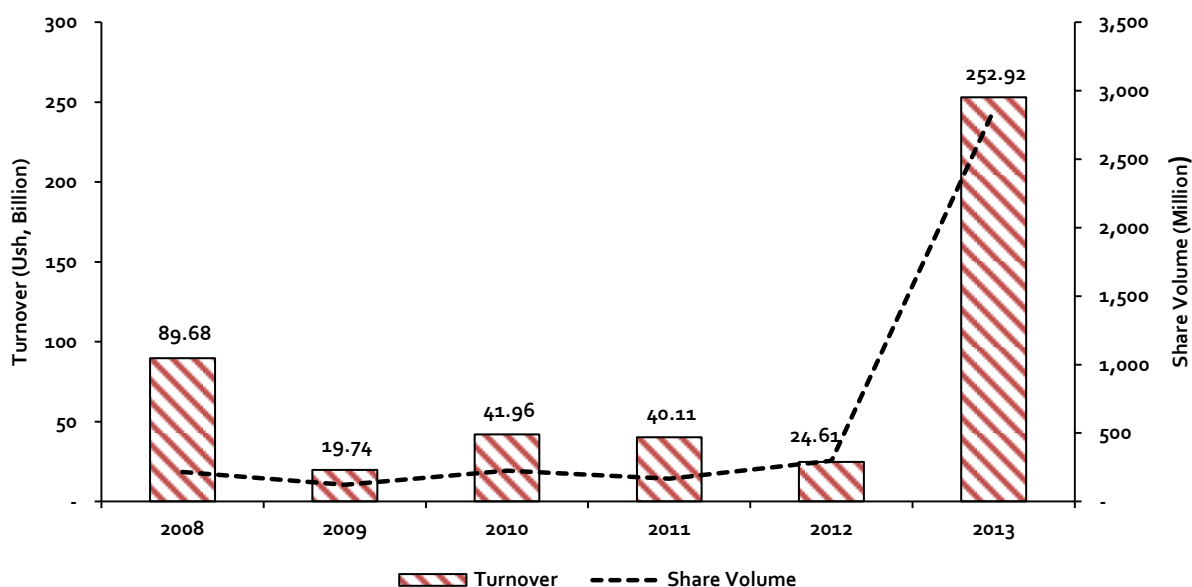
Primary Market

No activity was registered in the primary market for equity.

Secondary Market

All the major capital markets indicators were in positive territory in the calendar year 2013. Turnover at the USE for the year 2013 rose by over ten (10) times from **Ush 24.61 billion (US \$ 9.51 million)** in 2012 to **Ush 252.92 billion¹ (US \$ 97.77 million)** in 2013. Share volume was up by over nine (9) times to 2.86 billion shares from 296.93 million shares that changed hands in 2012 (see figure 1). A total of 4,538 trades were posted at the USE in 2013, an increment of 23% from 3,691 trades in 2012. The average value per trade in 2013 rose by over 8 times to **Ush 60 million (US \$ 0.02 million)** from **Ush 7 million (US \$ 0.003 million)** per trade in 2012.

Figure 1: Trends in Annual Turnover & Share Volume at the Uganda Securities Exchange



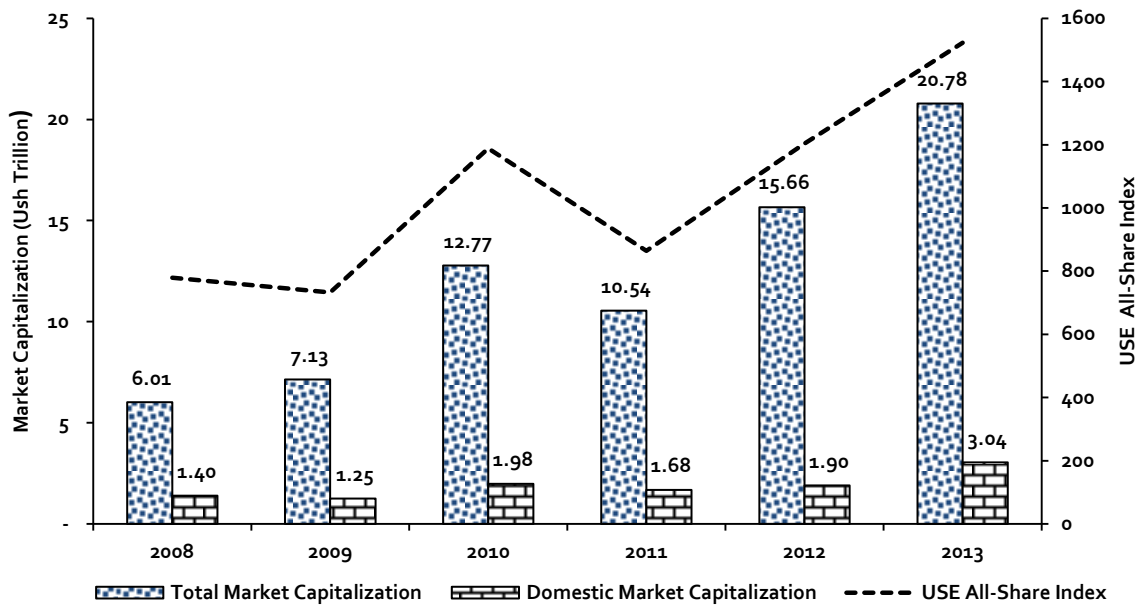
Source of Data: USE Market Reports

Total market capitalization at the USE that measures shareholders wealth rose by 33% to close at

¹ London based private equity fund Actis sold a 45% stake in DFCU limited for Ush 111.9 billion to Rabo Development B.V and the Norwegian Fund for Developing Countries (Norfund) through the USE.

Ush 20.78 trillion (US \$ 8.03 billion) from **Ush 15.66 trillion (US \$ 6.25 billion)** in the previous year. The domestic market capitalization was also up, rising by 60% to close the year at **Ush 3.04 trillion (US \$ 1.18 billion)** from **Ush 1.90 trillion (US \$ 0.76 billion)**. The USE All-Share index was up by 27% to close the year at 1,522.46 points from 1,203.42 points at the close of the previous year (see figure 2).

Figure 2: Trends in Total Market Capitalization and USE All-Share Index



Source of Data: USE Market Reports

Total market capitalization rose due to an increase in the market capitalization of all counters (domestic and cross-listed) with the exception of NIC that dropped and UCL that remained unchanged. Market activity in the year 2013 was driven by the prevailing low inflation, a stable domestic currency, the listing of Umeme shares in late 2012 that generated trading momentum in 2013 and a drop in yields on treasury securities that saw investors exit the government debt market for the equities market.

1.3 Objectives of the Survey

The Capital market players' survey sought to generate information on:

- i. The growth and development of intermediaries in Uganda's capital markets industry;
- ii. The cost of doing business in Uganda's capital markets industry; and
- iii. The participation of citizens of the East African community (EAC) member states in Uganda's capital markets.

1.4 Survey Methodology

The Market Players survey was conducted by the CMA Research Policy and Planning Department. Structured questionnaires were circulated to twenty two (**22**) market players in the Ugandan capital markets through e-mail between January 2014 and February 2014. A total of fifteen (**15**) Market Players responded to the questionnaires.

Financial data for the survey was obtained from financial statements of market players submitted to the Legal and Compliance Department as part of the licence renewal process. The financial statements of eleven (11) market players were aggregated to represent the industry in Uganda. A total of **seventy one (71)** financial statements from intermediaries in the Kenyan capital markets were obtained from CMA-Kenya, aggregated, converted into US\$ and analyzed for comparison with Ugandan intermediaries.

The Statistical Package for Social Scientists (SPSS) was used for both data entry and analysis.

CHAPTER TWO: MAIN FINDINGS OF THE SURVEY

2.1 Introduction

At the end of December 2013, the capital markets industry comprised of **eight (8)** market players with broker/dealer/investment advisor licences; **seven (7)** licensees with fund manager licences²; **seven (7)** investment advisors; **three (3)** trustees; and **four (4)**³ Collective Investment Scheme Managers. There were **twenty three (23)** market players in the industry under the different licence categories at the end of the year. The survey covered the following aspects of Uganda's capital markets industry: growth and development of market intermediaries in Uganda's capital markets; the cost of doing business in the Ugandan capital markets; and the participation of citizens of EAC member states in Uganda's capital markets.

2.2 Response Rate

A total of **twenty two (22)**⁴ questionnaires were distributed to the Market Players out of which **fifteen (15)** responded giving the survey a response rate of sixty eight percent (68%). Almost half (47%) of the market players who responded were Broker/Dealers (*see table 1*).

Table 1: Response Rate by Licence Category

Licence Category	No. of Licensed Persons	No. of Respondents	Response Rate by Licence Category (%)
Broker/Dealer/Investment Advisor	8	7	88
Investment Advisor	7	3	43
Fund Manager	5 ⁵	5	100
Trustee ⁶	2	0	0
Total	22	15	68

Source: Survey Findings

2.3 Market Players Characteristics

All the Fifteen (15) market players that responded were privately owned entities. Four (4)⁷ of the market players representing 29% of the respondents were fully owned by shareholders outside East Africa. An additional four (4) market players representing 29% had shareholders from outside East

² Two Brokers/Dealers are also licensed as fund managers.

³ All the CIS Managers surveyed were also licensed as fund managers and at the time of the survey, only one CIS manager had been operational for less than 2 months.

⁴ The Uganda Securities Exchange was excluded from the survey.

⁵ The count for Fund Managers excludes UAP Financials Ltd and African Alliance Limited which held both brokerage and broker/dealer licences.

⁶ The count for trustees excludes Standard Chartered Bank Limited that also held an investment advisory licence.

⁷ Fourteen market players provided a breakdown of their shareholding structures

Africa having a majority stake. Notably, only one (1) market player was fully owned by domestic shareholders (see table 2).

Table 2: Shareholding of Market Players Surveyed

	Domestic Shareholders	East African Shareholders	Shareholders outside East Africa
Fully owned entities	1	3	4
Majority holdings (Over 51% shareholding)		2	4
Minority holdings (Less than 51% shareholding)	3	3	

Source: Survey Findings

Ninety three (93%) of the market players were subsidiary companies (see table 3). A significant number of subsidiary companies (33%) had parent companies based in Kenya (see table 4).

Table 3: Company Status

	Frequency	Percent (%)
Parent Company	1	7
Subsidiary Company	14	93
Total	15	100

Source: Survey Findings

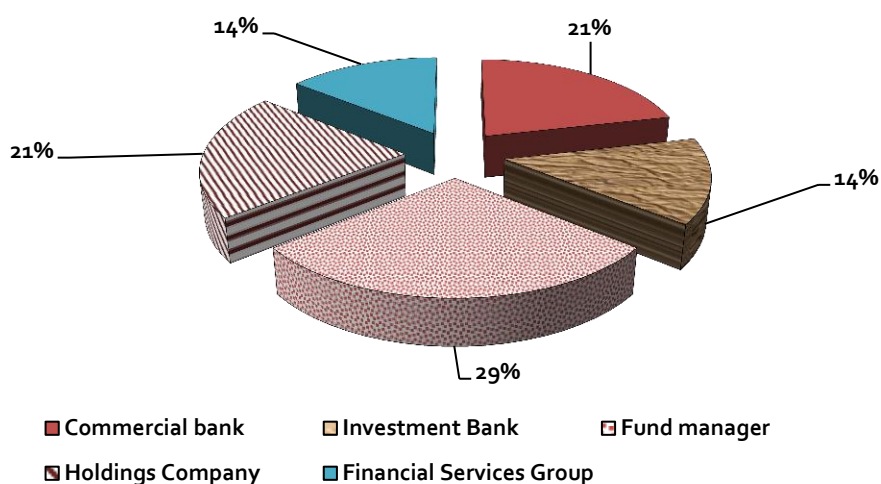
Table 4: Location of Parent Company

Country	Frequency	Percent
Dubai	1	6.7
British Virgin Islands	1	6.7
Kenya	5	33.33
Mauritius	1	6.7
South Africa	2	13.30
Uganda	3	20
United Kingdom	1	6.7
United States of America	1	6.7
Total	15	100

Source: Survey Findings

An examination of the nature of the parent companies for the market players that were subsidiaries shows that a significant number of the parent companies (29%) were fund managers (asset managers) (see figure 3).

Figure 3: Nature of Parent Company



Source: Survey Findings

2.4 Size of Uganda's Capital Markets Industry

2.4.1 Asset Base of the Industry

An analysis of the balance sheets of the market players in Uganda revealed that the assets of the industry grew by over forty two percent (42.71%) to **Ush 10.71 billion (US \$ 4.11 million)** from **Ush 7.21 billion (US \$ 2.88 million)** at the end of 2012. In comparison, Kenyan market players reported a growth of over sixteen percent (16.95%) in the value of their balance sheets to **US \$ 230.28 million** from **US \$ 196.89 million** at the end of 2012. In Uganda, current assets accounted for three quarters (75%) of the consolidated industry balance sheet value compared to sixty two percent (62%) in Kenya (see table 5).

Table 5: Total Assets in the Ugandan and Kenyan Capital Markets

		2013	2012	2011	Annual Percentage Change (%)
Uganda	Fixed Assets (US \$, Million)	1.03	1.14	0.86	-9.65
	Current Assets (US \$, Million)	3.08	1.74	1.35	77.01
	Total (US \$ Million)	4.11	2.88	2.21	42.71
Kenya	Fixed Assets (US \$, Million)	87.64	80.90	76.93	13.92
	Current Assets (US \$, Million)	142.64	115.99	110.14	22.97
	Total (US \$ Million)	230.28	196.89	187.07	16.95

Source: Survey Findings

A further analysis of the consolidated balance sheet revealed that in Uganda, Broker/Dealers accounted for sixty five (65%) of the total value of the consolidated industry balance sheet, while in Kenya, Investment Banks accounted for forty eight percent (48%) of the total value of the consolidated industry balance sheet (see table 6).

Table 6: Total Balance Sheet Assets by Licence Category in Uganda and Kenya

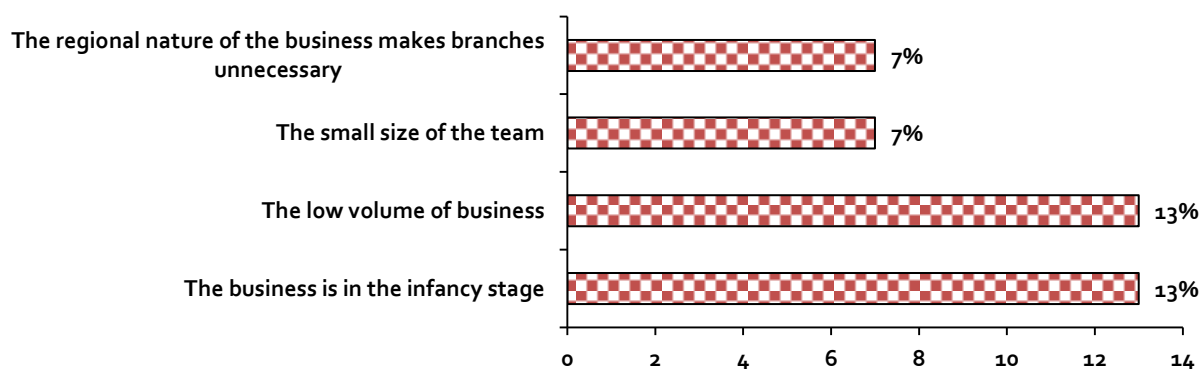
		US \$ (Million)	Percentage (%)
Uganda	Broker/Dealer	2.69	65
	Fund Managers	1.39	34
	Investment Advisors	0.03	1
	Total	4.11	100
Kenya	Brokers	62.47	27
	Investment Banks	110.64	48
	Fund Managers	39.19	17
	Collective Investment Schemes	7.32	3
	Investment Advisors	9.14	4
	Others	1.52	1
	Total	230.28	100

Source: Survey Findings

2.4.2 Distribution Network

None of the market players surveyed had any branches in Uganda or in East Africa. An equal number of market players (13%) cited the low volume of business and the fact that their businesses were still in the infancy stage as the main reasons for not having any branches in Uganda and the East African region (see figure 4).

Figure 4: Reasons Cited by Market Players for not Having Branches



Source: Survey findings

Five (5) market players, representing a third (33%) of market players that responded to the survey reported having agents. Majority of the market players (60%) with agents were broker/dealers (see table 7).

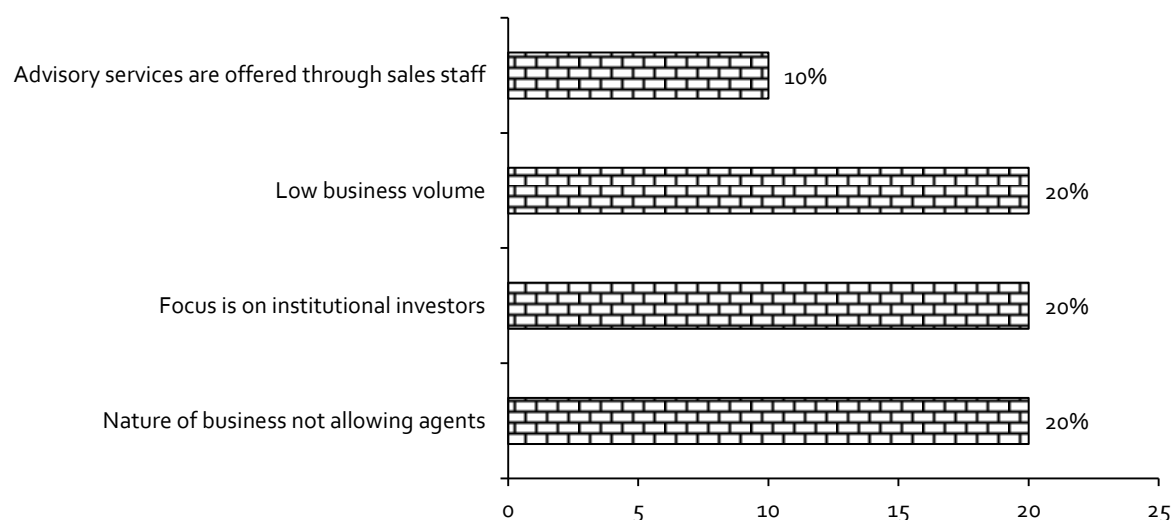
Table 7: Licence Category of Market Players with Agents

Licence Category	Frequency	Percent (%)
Investment Advisors	2	40
Broker/Dealers	3	60
Total	5	100

Source: Survey Findings

The ten market players who indicated that they did not have agents cited various reasons. Notably, two in every ten market players (20%) cited focus on institutional investors, low business volume and the nature of their businesses as the major reasons for not having agents (see figure 4).

Figure 5: Reasons Cited for not Having Agents



Source: Survey Findings

The key pillars necessary for having vibrant capital markets include: sustained macro-economic stability, a sound banking system, a solid institutional framework, as well as adequate regulation and supervision. In addition, the presence of financial intermediaries, a wide investor base, numerous potential issuers and trading infrastructure contribute to high business volume in the financial markets. Uganda has had a sound macro-economic framework over the last 25 years which makes the economic environment conducive for vibrant capital markets. Moreover, a solid legal-regulatory framework is in place to ensure efficiency and protection of investors. With about 50,000 investors in the capital markets, the investor base remains narrow. However, demand for capital from the private sector is also high as indicated by the high volume of credit to the private sector.

These are indicators that there is a huge potential in the Ugandan capital markets for high business volume that is untapped.

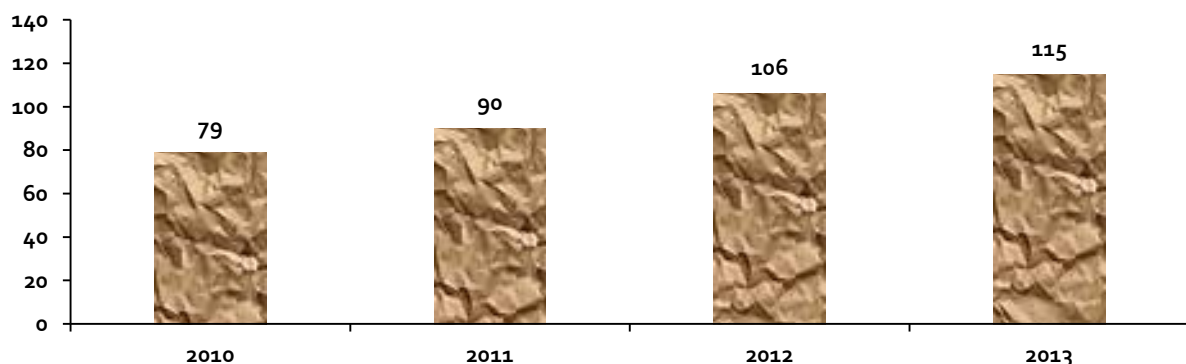
With no branches outside Kampala and few agents, market players have been unable to widen their reach for product distribution. This has denied them opportunities occasioning the low volume of business in the industry. In Kenya, market players such as stock brokers have used agents extensively to widen their reach. Through the Kenya Association of Stock Brokers and Investment Banks, the Agents are registered and adhere to a code of conduct that covers areas such as professionalism, conflict of interest, integrity, risk management and dispute resolution. This helps in the minimization of risk associated with having agents.

Notably, the brokers/dealers surveyed spent **Ush 110.96 million (US \$ 42,895)** in 2013 on market development efforts such as advertising and other promotional activities from **Ush 105.05 million (US \$ 41,944.27)** in 2012, an increase of 2%. The market development costs represented 2.61% of the total expenditure of the broker/dealers. Their Kenyan counterparts spent **US \$ 74,641** in 2013 on similar market development efforts, an increase of 13% from **US \$ 65,890.14** in 2012. The market development costs 1.07% of the total expenditure incurred by the brokers in Kenya. The highest spending broker/dealer in Uganda on market development accounted for 95% of the total spend compared to Kenya where the highest spending broker accounted 33% of the total spend. Market development is critical to heightening the level of awareness in regard to capital markets in order to drive the volume of business. Market players will need to invest more in public education campaigns to raise business volume.

2.4.3 Employment Trends in the Capital Markets Industry

The market players surveyed reported having a total of one hundred and fifteen employees (**115**), an increase of 9%, from one hundred and six (**106**) employees reported in 2012 (see figure 6).

Figure 6: Three Year Trend in Total Employees in the Capital Markets Industry



Source: Survey Findings

Almost half of the employees in the industry (48%) were employed by broker/dealers (see table 8).

Table 8: Employees by Licence Category

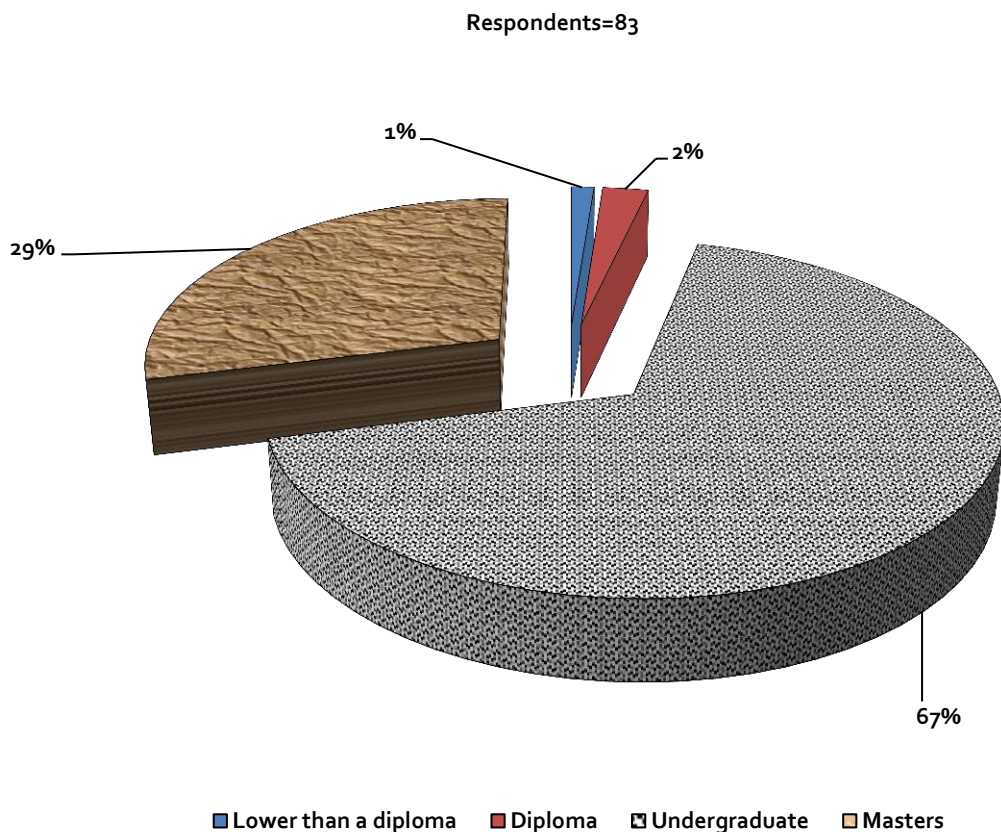
Licence Category	Number	Percent (%)
Broker/Dealers	59	51
Fund Managers	23	20
Investment Advisors	33	29

Source: Survey Findings

The broker/dealers had an average of 8 staff members. The thin human capital base and limited information technology usage could be a hindrance to the tapping of opportunities in the industry hence the low business volume reported. Turkey which is an advanced economy has 99 brokerage houses with each having an average of 52 staff members which indicates a wide human capital base that can effectively exploit available opportunities.

Eighty eight (88) employees were professional staff representing 77 % of the total employees in the industry. A significant number of the professional staff (67%) had a bachelor's degree as their highest level of education (see figure 7).

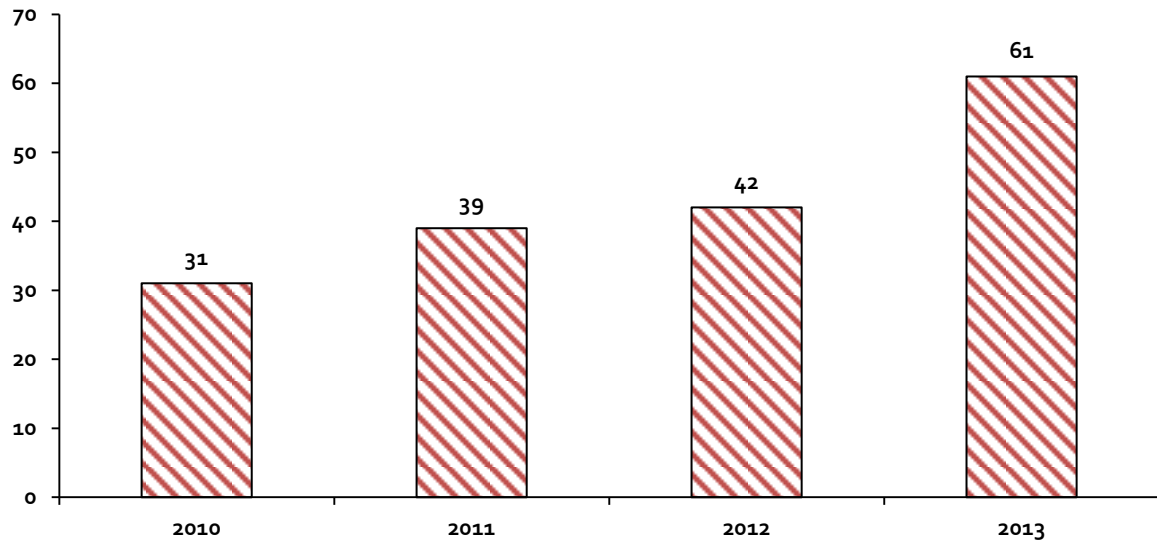
Figure 7: Qualifications of Professional Staff



Source: Survey Findings

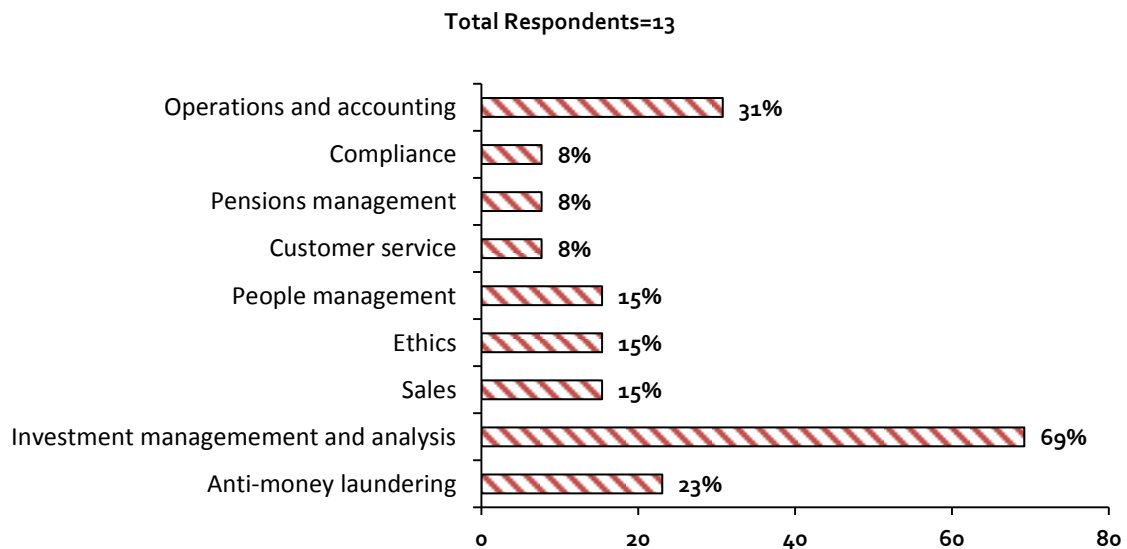
All the market players surveyed (15) had a training program for professional staff. In the year 2013, sixty one (61) professional staff members attended some form of training, from forty two (42) in 2012. This was an increase of forty five percent (45%) (see figure 8). Thirteen (13) market players gave a breakdown of the areas of training for their professional staff with a majority (69%) indicating that investment management and analysis was the main area of choice (see figure 9).

Figure 8: Trends in Professional Staff Training (2010-2013)



Source: Survey Findings

Figure 9: Areas of Training for Professional Staff in 2013



Source: Survey Findings

2.4.4 Client Base

Uganda has an estimated **50,000** registered institutional and retail investors in the capital markets. A total of **22,799** investors had opened SCD accounts by the end of 2013 for trading shares at the USE. The market players surveyed reported having a total client base of **16,751** registered institutional and retail investors. The three largest market players by the number of clients accounted for 87% of the entire industry’s client base. A further breakdown indicated that the two largest market intermediaries by client base accounted for 80% of the total registered clients (see *table 9*).

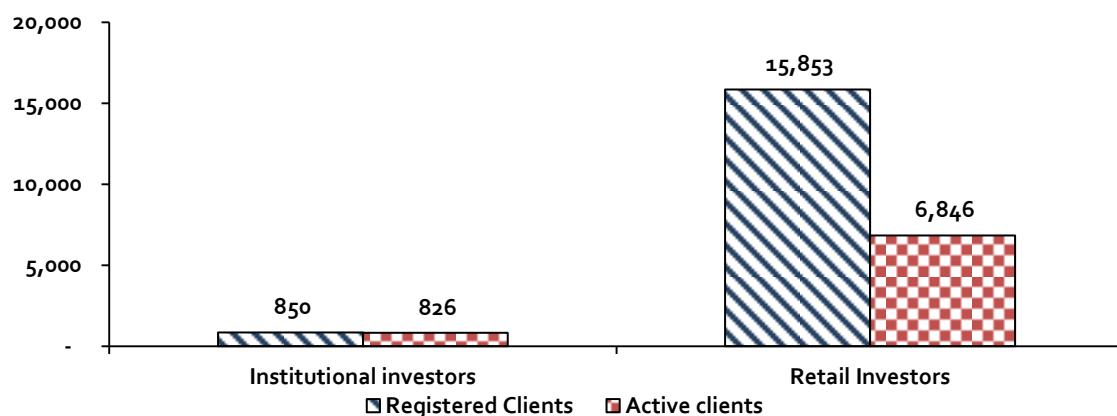
Table 9: Market Concentration Based on Client Base

Concentration	Percentage
Market Concentration of the (3) largest market players by client base	87%
Market Concentration of the (2) largest market players by client base	80%

Source: Survey Findings

The market players provided a further breakdown for **16,703** registered investors based on investor category and nationality. A total of **15,853** registered investors were retail investors, representing a gigantic ninety five percent (95%) of the registered investors, with the rest being institutional investors. A total of **10,504** registered investors were categorized as being actively engaged in trading in the capital markets. However, the market players were only able to provide a breakdown for **7,672** active investors based on investor category and nationality, of which **6,846** were retail investors representing eighty nine percent (89%) of the total active investors (see *figure 10*).

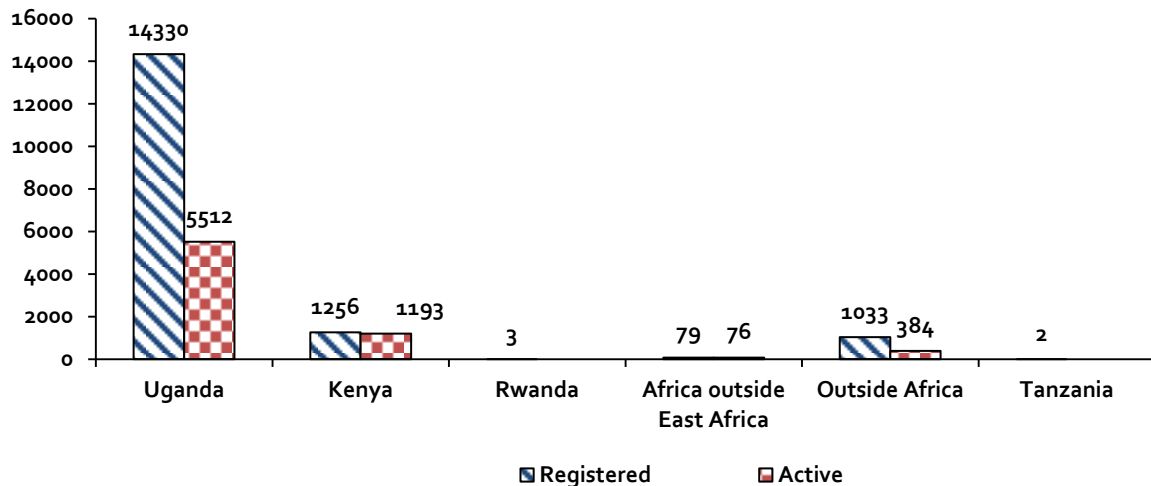
Figure 10: Status of Client Accounts by Investor Category



Source: Survey Findings

A breakdown of investors by nationality indicates that a large portion of the investors (**14,330**) were Ugandan retail and institutional investors, representing 90% of the total investor base in the industry. Over five thousand Ugandan investors (**5,512**) were actively engaged in trading at the USE (see figure 11).

Figure 11: Distribution of Investors by Nationality



Source: Survey Findings

2.5 Market Share Based on Equity Turnover⁸ and Active Investors

The USE recorded a turnover of **Ush 252.92 billion (US \$ 97.77 million)** in the year 2013 with African Alliance Limited emerging as the largest trader accounting for 42% of the total equity turnover. The three top market players in terms of the equity turnover accounted for 89% of the total turnover (see appendix one).

In terms of the number of active investors, Crested Securities Limited accounted for the highest number of active investors in the year 2013 at thirty four percent (34%). The top three market players accounted for 78% of the active investors. The top two market players accounted for 58% of the total number of active investors (see appendix two).

2.6 Concentration Levels for Performance Indicators by Licence Category

2.6.1 Broker/Dealer

Broker/Dealers posted a turnover of **Ush 4.58 billion (US \$ 1.77 million)** in 2013 from **Ush 4.09 (US \$ 1.63 million)** in 2012, an increase of twelve percent (12%). An assessment of turnover concentration

⁸ This includes stock brokerage fees, excluding other revenue sources such as commissions, transaction advisory fees and other income.

levels in the industry indicates that the top two brokers in terms of total turnover accounted for 75.08% (see table 10).

Table 10: Concentration of Turnover

Concentration of Turnover	Percentage (%)
Turnover of the top 2 Broker/Dealers	75.08
Turnover of the top 3 Broker/Dealers	84.97

Source: Survey Findings

The broker/dealers made a total profit of **Ush 269.50 billion (US \$ 0.10 billion)**. However, **five (5)** of the **six (6)** broker dealers made a profit of **Ush 1.06 billion (US \$ 0.41 billion)** with only one making a loss. Excluding the outlier (the loss making broker/dealer in this case), the top two broker/dealers in profitability terms accounted for 78.48% of the industry income after tax (see table 11).

Table 11: Concentration of Profitability

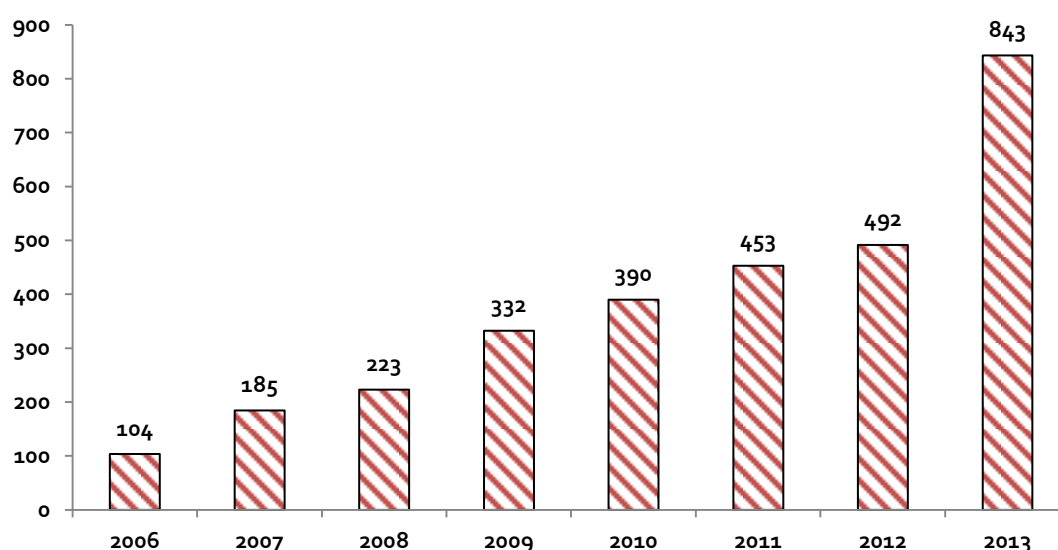
Concentration of Profitability	Percentage (%)
Profitability of top 2 Broker/Dealers	78.48%
Profitability of top 3 Broker/Dealers	87.88%

Source: Survey Findings

2.6.2 Fund Managers

Fund Managers in Uganda had a total of **Ush 843.21 billion (US \$ 325.96 million)** in funds under management at the end of December 2013. This was a sixty six percent (67%) increment from **Ush 492 billion (US \$ 196.29)** in 2012. The sub-sector posted a compounded average growth rate of 29.90% between 2006-2013 (see figure 12) attributed to growth in the value of underlying assets and an increase in the number of pension schemes contracting fund managers.

Figure 12: Trends in Funds under Management⁹ (2006-2013, Ush Billion)



Source: CMA-Uganda

An analysis of the concentration in terms of assets under management reveals that the top two fund managers accounted for 69% of the total assets in the industry while the top three fund managers accounted for 84% of the total assets under management (see table 12).

Table 12: Concentration of Assets under Management

Concentration of Assets Under Management	Percentage (%)
Fund under management by the top 2 fund managers	69
Funds under management by the top 3 fund managers	84

Source: CMA-Uganda

The fund managers posted a total turnover of **Ush 3.09 billion (US \$ 1.19 million)**. A look at the concentration of turnover shows that the top three fund managers accounted for 96.61% of the industry turnover (see table 13).

Table 13: Concentration of Turnover

Concentration of Turnover	Percentage (%)
Turnover of the top 2 fund managers	84.34
Turnover of the top 3 fund managers	96.61

Source: CMA-Uganda

All fund managers were profitable except one with the sub-sector posting a total profitability of Ush 266.80 million (US \$ 0.10 million). When only the profitable fund managers were considered

⁹ Funds under management as at 31st December of each year.

(excluding the loss-making one), the industry posted a profit after tax of Ush 525.21 million (US \$ 0.20 million). The top two most profitable fund managers accounted for 95.77% of the profitability.

2.7 Consolidated Industry Performance

In assessing industry performance, the survey focused on industry turnover, costs, profitability and cash flow position. To benchmark performance, the survey compared the financial statements of Ugandan market players against their Kenyan counterparts.

2.7.1 Turnover

The market players reported a seventy seven percent (77%) increase in total turnover to **Ush 7.98 billion (US \$ 3.08 million)** from **Ush 4.52 billion (US \$ 1.80 million)** posted in 2012. Broker/Dealers accounted for fifty nine percent (59%) of the industry turnover (see table 10). In Kenya, market players reported a forty eight percent (48%) growth in turnover to **US \$ 95.73 million** from **US \$ 64.52 million** in 2012. Investment banks accounted for thirty six percent (36%) of the total turnover (see table 14).

Table 14: Turnover by Licence Category for Ugandan and Kenyan Market Players

		2013		2012		2011	
		US \$ (Million)	Percent (%)	US \$ (Million)	Percent (%)	US \$ (Million)	Percent (%)
Uganda	Broker /Dealer	1.83	59	1.17	65	1.09	54
	Fund Managers	1.19	39	0.48	27	0.36	18
	Investment Advisors	0.06	2	0.15	8	0.58	29
	Total	3.08	100	1.80	100	2.04	100
Kenya	Investment Banks	34.83	36	26.91	42	20.28	32
	Broker	11.99	13	9.86	15	9.53	15
	Fund Managers	33.81	35	16.78	26	26.80	43
	Investment Advisors	8.25	9	9.98	15	11.05	18
	Unit trust	6.69	7	0.78	1	-4.91	-8
	Approved entities	0.16	0	0.21	0	0.15	0
	Total	95.73	100	64.52	100	62.90	100

Source: Survey Findings and CMA-Kenya

The largest source of income for Ugandan market players in 2012 was brokerage fees at forty two percent (42%). This is contrast with the year 2012 when fund management fees accounted for the largest source of income at twenty six percent (26%) of the total industry income.

In the Kenya, market players recorded fund management income as the main source of income, accounting for thirty three percent (33%) of the total income generated in the year 2013. In 2012, brokerage fees had been the main source of income for market intermediaries in Kenya, accounting for thirty eight percent (38%) of the total industry income (see table 15).

Table 15: Distribution of Turnover by Income Category (Percentages)

		2013 (%)	2012 (%)	2011 (%)
Uganda	Brokerage fees	42	23	24
	Advisory fees	5	18	38
	Commissions	5	20	4
	Other income	13	13	19
	Fund management fees	35	26	15
	Total	100	100	100
Kenya	Brokerage fees	32	38	34
	Advisory fees	13	10	21
	Interest income	8	5	14
	Other income	14	11	-15
	Dividend income	0	0	1
	Fund management income	33	34	43
	Bond trading income	0	2	1
	Total	100	100	100

Source: Survey Findings & CMA-Kenya

2.7.2 Industry Total Costs

Industry total costs rose by over fifty two percent (52.44%) to **Ush 7.13 billion (US \$ 2.68 million)** from **Ush 4.71 billion (US \$ 1.88 million)** in 2012. A similar trend was noted in the Kenyan capital markets industry where total costs rose by over twenty three percent (23.16%) to **US \$ 62.85 million** from **US \$ 51.03 million** in 2012.

Operational costs among brokers in Uganda were a major cost item, accounting for 63.06% of their total expenditure compared to 57.84% of the total expenditure incurred by their Kenyan counterparts. Another significant item in the expenditure of the brokers was salaries that accounted for 34.33% and 41.1% in Uganda and Kenya respectively in 2013.

The Uganda capital markets had a total cost to income ratio of **0.87** implying that for every **US \$100** generated as income, market players were spending **US \$ 87** in meeting costs. On the other hand, Kenyan market players had a cost to income ratio of **0.66**, implying that for every **US \$ 100** generated as income, **US \$ 66** was spent on meeting costs (see table 16).

Table 16: Total Costs, Cost to Income Ratio

	Uganda			Kenya		
	2013	2012	2011	2013	2012	2011
Total Costs (US \$, Million)	2.68	1.88	2.64	62.85	51.03	66.35
Cost-Income Ratio	0.87	1.43	1.29	0.66	0.74	1.05

Source: CMA-Uganda & CMA-Kenya

2.7.3 Profit/Loss of the Industry

The industry shifted into positive territory, posting a more than three-fold increase in income to **Ush 452.94 million (US \$ 0.19 million)**, from a loss of **Ush 193.28 million (US \$ 0.08 million)** recorded previously. The Market Players recorded a return on assets that was slightly above four percent (**4.64%**) in 2013, from a negative return (**-2.7%**) in 2012, an indicator that market players are using resources efficiently. In Kenya, market players posted a growth of over one hundred percent (108%) in profitability to **US \$ 28.27 million** from **US \$ 13.56 million** in 2012. Kenyan market players had an increase in return on assets in 2013 to over twelve percent (12.27%) compared to over six percent (6.88%) in 2012 (see table 17).

Table 17: Profitability and Return on Assets

	Uganda			Kenya		
	2013	2012	2011	2013	2012	2011
Profit/Loss (US \$ Million)	0.19	-0.08	-0.60	28.27	13.56	-3.45
Return on Assets (Percent)	4.64	-2.7	-27	12.27	6.88	-1.84

Source: CMA-Uganda & CMA-Kenya

2.7.4 Cash-flow Position

Ugandan market players posted a seventy one percent (71%) growth to record a net cash flow position of **Ush 2.78 billion (US \$ 1.07 million)** from **Ush 1.63 billion (US \$ 0.65 million)** in 2012. Kenyan market players closed the year 2013 with net cash flow position of **US \$ 73.65 million** from net cash flows of **US \$ 51.38 million** in 2012. This was an improvement of forty three percent (43%).

Ugandan market player had positive cash flows from operations and financing of **US \$ 0.22 million** and **US \$ 0.04 million** respectively in 2013, while their Kenyan counterparts reported positive cash flows from operations of **US \$ 37.53 million** in 2013 (see table 18).

Table 18: Cash Flow Position of Market Players

		2013 Figures (US \$, Million)	2012 Figures (US \$, Million)	2011 Figures (US \$, Million)
Uganda	Cash at the beginning of the year	1.02	0.27	-0.15
	Cash flow from operation	0.22	0.02	-0.50
	Cash flow from investing	-0.21	-0.07	0.20
	Cash flow from financing	0.04	0.43	0.93
	Net Cash-flow position	1.07	0.65	0.48
Kenya	Cash at the beginning of the year	50.54	44.01	57.03
	Cash flow from operation	37.53	10.90	-11.60
	Cash flow from investing	-2.48	-0.78	-5.38
	Cash flow from financing	-11.94	-2.75	5.16
	Net Cash-flow position	73.65	51.38	45.21

Source: CMA-Uganda & CMA-Kenya

2.7.5 Corporate Finance

Majority of the market players (80%) did not record any corporate finance transactions. All the corporate finance transactions were undertaken by broker/dealers. Market players reported a total of one (1) expressions of interest valued at **Ush 7.5 billion (US \$ 2.9 million)**. The expression of interest was for an Initial Public Offering (IPO) for equity. Three (3) deals were completed in the year 2013. They included: an IPO for a bond worth **Ush 12.5 billion (US \$ 4.83 million)**; cross-listing of shares worth **Ush 160 billion (US \$ 61.85 million)**; and a rights issue worth **Ush 7.2 Billion (US \$ 2.78 million)**. A total of seven (7) deals were reported to be on-going with an estimated value of **Ush 145 billion (US \$ 56.05 million)** (see table 19).

Table 19: Corporate Finance Transactions (2012)

Type of Deal	Expression of Interest		Completed		On-Going Deals	
	No. of Deals	Value (Ush Bn)	No. of Deals	Value (Ush Bn)	No. of Deals	Value (Ush Bn)
Initial Public Offer (Equity)	1	7.5			1	125
Initial Public Offers (Bonds)			1	12.5		
Private Placements (Equity)					5	10
Private Placements (Bonds)						
Cross-listing			1	160		
Rights Issues			1	7.2		
Bonus Issues						
Mergers and Acquisitions					1	10
ESOP						
Total	1	7.5	3	179.7	7	145

Source: Survey Findings

2.8 The Cost of doing Business in Uganda's Capital Markets

Market players in Uganda's capital markets renew their licences annually. Market intermediaries usually have up to 31st March of every year to submit their license renewal application form and relevant documentation. The documentation includes but is not limited to: financial statements for the preceding year, a business plan for the forthcoming year and applications for the renewal of the representative licences for their staff members. The annual licence renewal process ensure that only accredited entities that meet the requirements of the Authority are allowed to operate in Uganda's capital markets hence safeguarding investors interests.

The annual licence renewal process has three stages:

- i. **Submission of Application for Licence Renewal Documents by the Market Players-**
All licences are usually due for renewal at the end of 31st March of each year. The market players usually have a one (1) month window period from 1st of March to 31st of March annually to submit their application for renewal together with the supporting documentation to the Legal and Market Supervision Department of CMA.
- ii. **Review of Application Documents-**CMA's Legal and Market Supervision Department reviews all applications on a case by case basis and makes a recommendation to the Board of Directors for licence renewal if the requirements have been met.

- iii. **Board Approval**-The CMA Board of Directors that meets every quarter of the year during its sittings approves the renewal of licences for the different market players based on the recommendations of the Legal and Market Supervision Department.

In an ideal situation, the process should take a minimum of twenty (**20**) working days from the receipt of the documents for licence renewal (*see figure 13*).

Figure 13: Licence Renewal Process



Source: CMA Legal and Market Supervision Department

Market players surveyed reported that it took an average of twenty four (**24**) working days (*see table 16*) for their licenses to be renewed from the time they submitted their application to the time they received the licences. This is an improvement from twenty six (**26**) working days reported in 2012. The longest period it took to renew a licence was forty eight (**48**) working days in 2013, from forty five (**45**) working days in 2012. On the other hand, the shortest period reported was six (**6**) working days in 2013, compared to ten (**10**) working days in 2012 (*see table 20*).

Table 20: Time Spent on Licence Renewal (Number of Working Days)

Indicator	2013	2012	2011
Average	24	26	33
Minimum	6	10	7
Maximum	48	45	45

Source: Survey Findings

Market Players reported that the CMA inspection teams spent an average of one (**1**) working day at their premises during inspections (*see table 17*). The shortest period spent on preparations for inspections was one (**1**) working day, while the longest period was **2** working days in 2013 (*see table 21*).

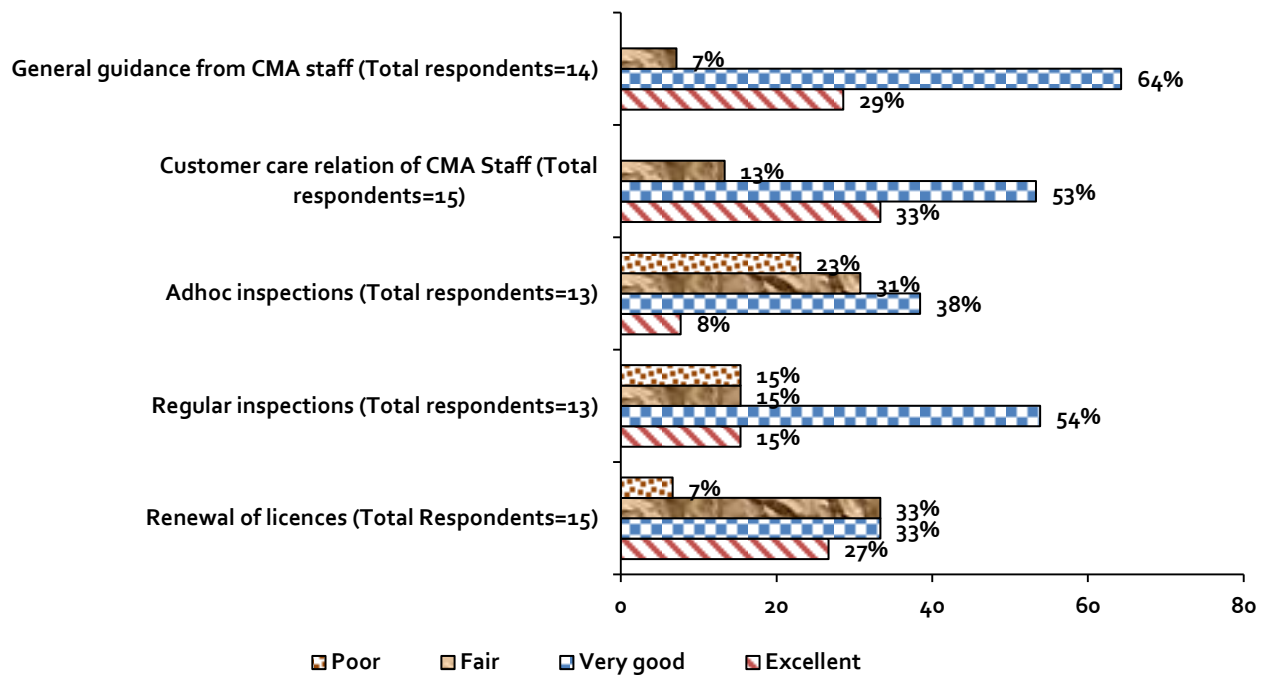
Table 21: Time Spent by the CMA Inspection Team at Respondents Premises During Inspections

Indicator	2013
Average	1
Minimum	1
Maximum	2

Source: Survey Findings

The market players rated CMA’s interaction with them. The areas of interaction included: licence renewal, inspections, customer care aspects, guidance aspects and interactions during approval for primary and secondary market issues. For a second year running, the good customer care of CMA staff received a high positive rating with eighty six percent (86%) of the market players ranking it as being good (see figure 14).

Figure 14: Rating of CMA's Interactions with Market Players



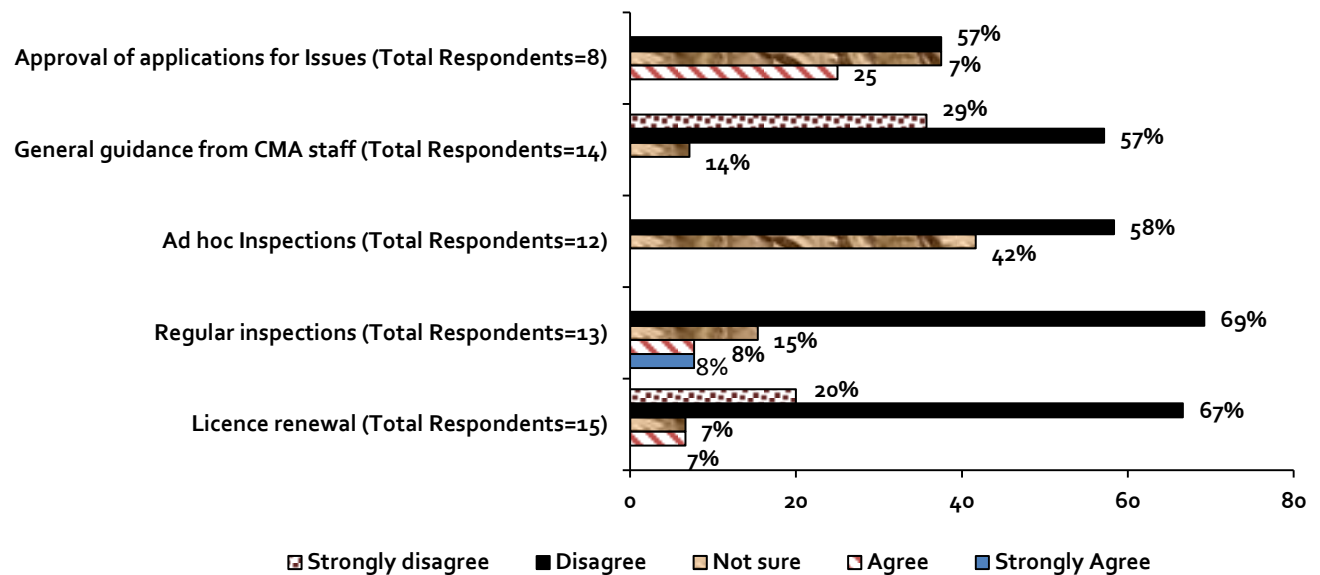
Source: Survey Findings

Market players who gave favorable ratings to the authority cited excellent working relationship with the authority, the rendering of excellent services, protection of investors, market development and the provision of the necessary guidance when required.

On the other hand, Market players who gave unfavorable ratings on some of the aspects of their interaction with CMA cited minimal interaction with CMA, lengthy licence renewal and the delays in approving market transactions such as IPOs’, bonus issues and rights issues.

The Market Players commented on whether various aspects of the CMA processes were cumbersome and time consuming. Most Market Players (86%) disagreed that the process of receiving general guidance from CMA staff was cumbersome (See figure 15).

Figure 15: Ratings on whether CMA Processes are Cumbersome



Source: Survey Findings

Market players who felt that CMA processes were time consuming and cumbersome mentioned the lengthy process it took to approve applications for issues such as rights, bonus issues and IPOs'. To improve the CMA processes, market players suggested: the creation of an online portal for uploading of documents for licence renewals and notifications; reduction in fees and charges; and a reduction in the time it takes to renew a licences and approve applications for issues by vesting the powers to do so with the CMA management instead of the Board of Directors.

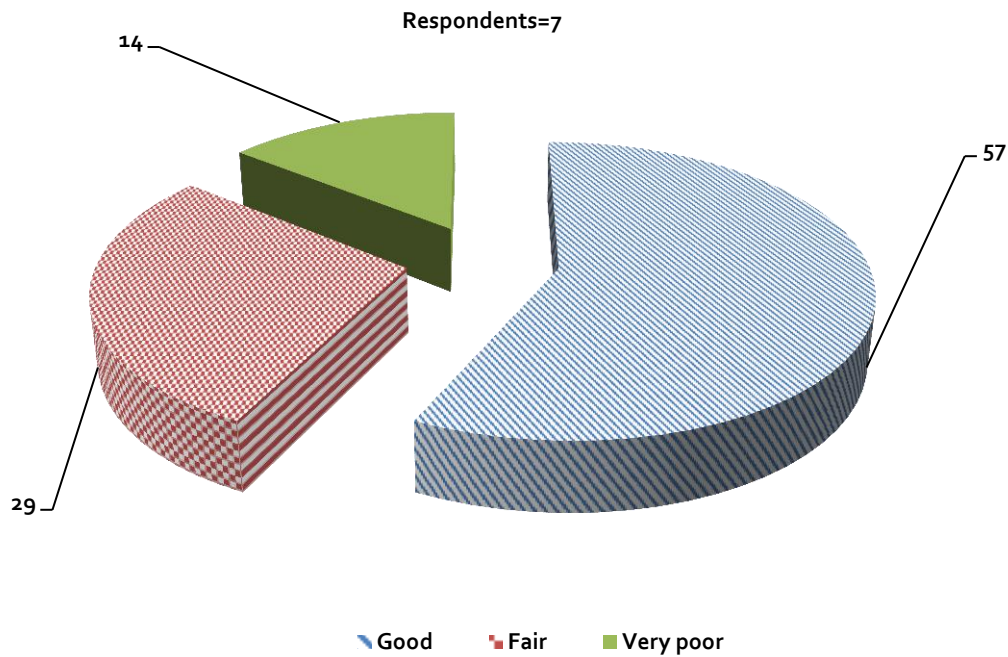
When asked to make comments on the regulatory environment, market players felt that the environment was generally positive but noted that the Authority needed to review regulations to eliminate overlapping elements.

Fund managers called for the standardization of practices such as valuation within their sub-sector. Regionally none of the EAC member states provides guidelines for valuation of assets by fund managers. However in Kenya, efforts are being made towards standardization through in an effort being spearheaded by the association of fund managers.

Seven (7) market players (representing 47%) of the total number of market players surveyed) were members of the USE. Seven (7) members of the USE rated its performance as a Self-Regulatory

Organization (SRO) for the year 2013. Majority of them (57%) felt that the performance was good (see figure 16). The market players gave the USE favorable ratings citing the excellent services rendered and provision of proper guidance to members. However market players expressed concerns over the lack of a substantive Chief Executive Officer at the time of completing the questionnaires.

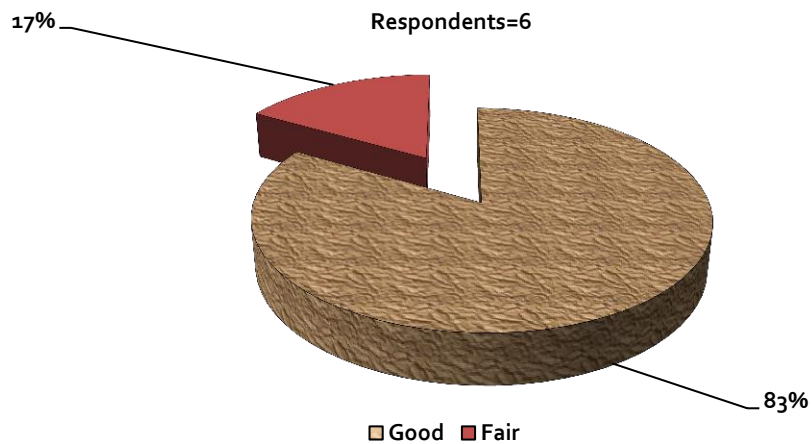
Figure 16: Rating of the USE as a Self-Regulatory Organization



Source: Survey Findings

All the seven (7) Broker/Dealers surveyed were Securities Central Depository (SCD) agents. Six (6) SCD agents rated the performance of the SCD. A staggering eighty three percent (83%) of them rated the performance as being good. The positive ratings of the SCD performance were due to the excellent performance during the year with the handling of the National Insurance Corporation rights issue standing out as the SCD uploaded the shares in a timely manner. However, concerns were expressed over continuous breakdowns, slowness and poor connectivity of the system at times (see figure 17).

Figure 17: SCD Ratings



Source: Survey Findings

2.9 Participation of Citizens of EAC Member States in Uganda's Capital Markets

Ninety three percent (93%) of all the Market Players surveyed were subsidiaries of other companies (see table 3). Thirty three percent (33%) of the subsidiaries had their parent companies being incorporated in Kenya with none of the subsidiaries having parent companies in the other member states of the EAC (see table 4).

A total of one thousand, two hundred and sixty one (**1,261**) clients representing eight percent (8 %) of the total registered clients were from the East African region. Kenyan investors accounted for the bulk of the EAC region investors at ninety five percent (95%).

2.10 Other Capital Markets Indicators

2.10.1 Corporate Governance

All the market players surveyed indicated that they had a Board of Directors. The Board of Directors in any organization has several roles to play which include: providing direction to the organization; establishing a policy governance system; fiduciary duty to protect an organization's assets; and monitoring as well as controlling activities in an organization.

The average number of Directors per board was five (**5**), with the least number of Directors being two (**2**) in 2013, similar to the 2012 findings. In contrast, the largest Board had seven (**7**) Directors in 2013, compared to nine (**9**) reported in 2012 (see table 22).

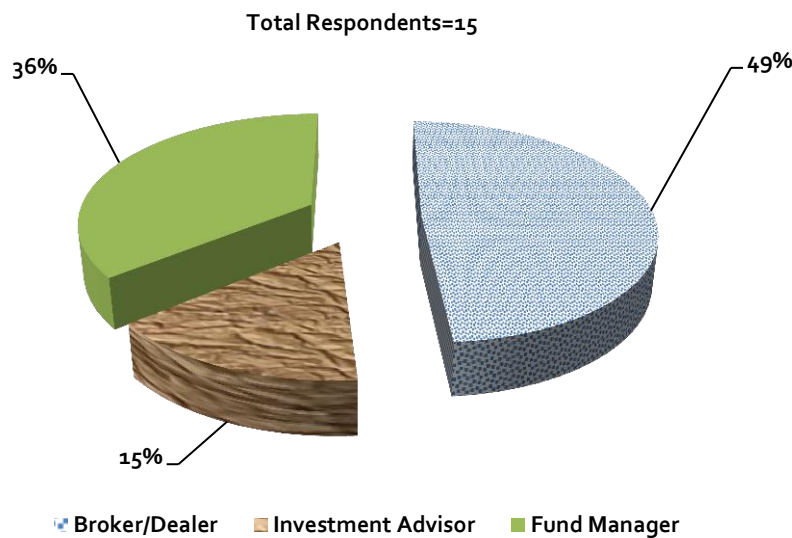
Table 22: Size of the Board of Directors

Indicator	2013	2012	2011
Average	5	5	5
Minimum	2	2	2
Maximum	7	9	7

Source: Survey Findings

Broker/ Dealers accounted for 49% of the Directorships in the industry with fund managers accounting for 36% (see figure 18).

Figure 18: Directorship by Licence Category



Source: Survey Findings

Majority of the market players (93%) reported having non-executive Directors on their Boards. The average number of non-executive Directors on a Board was three (3) in 2013 from four (4) in 2012. The highest number of non-executive Directors reported was six (6) while the least was one (1) in 2013, compared to a maximum of eight (8) and minimum of two (2) non-Executive Directors in 2012 (see table 23).

Table 23: Non-Executive Directors

Indicator	2013	2012	2011
Average	3	4	3
Minimum	1	2	1
Maximum	6	8	6

Source: Survey Findings

Fund Managers reported having an average of four (4) Non-Executive Directors. Fund Managers and Broker/Dealers reported a maximum of six (6) Directors while Broker/Dealers and Investment Advisors had a minimum of one (1) Non-Executive Director (see table 24).

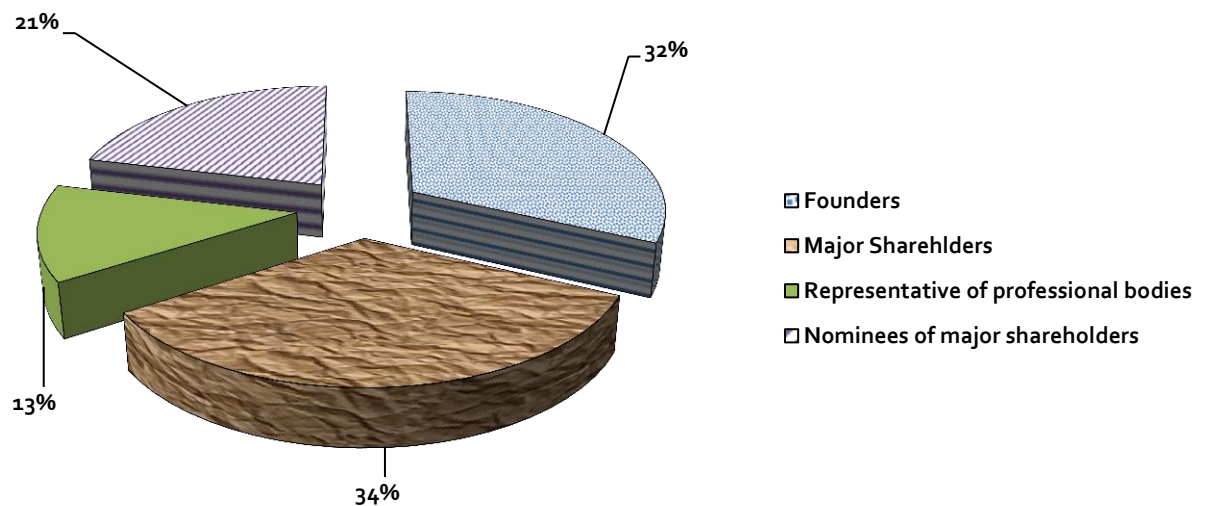
Table 24: Number of Non-Executive Directors by Licence Category

	Maximum	Average	Minimum
Broker/Dealer	6	3	1
Investment Advisors	4	2	1
Fund Managers	6	4	2

Source: Survey Findings

Thirteen (13) market players provided a detailed breakdown of the composition of their boards. An analysis of the board composition revealed that a significant number of the board members (34%) were major shareholders of the market players (see figure 19). Majority of the Directorships (87%) were held by shareholders, their representatives and associated parties.

Figure 19: Board Composition



Source: Survey Findings

Twelve (12) market players (representing 80% of the market players surveyed) indicated that the role of the Chairperson of the Board was separate from that of the Chief Executive Officer which is international best practice for corporate governance. Market players indicated that their Boards of Director on average held three meetings per annum (see table 25).

Table 25: Frequency of Board Meetings

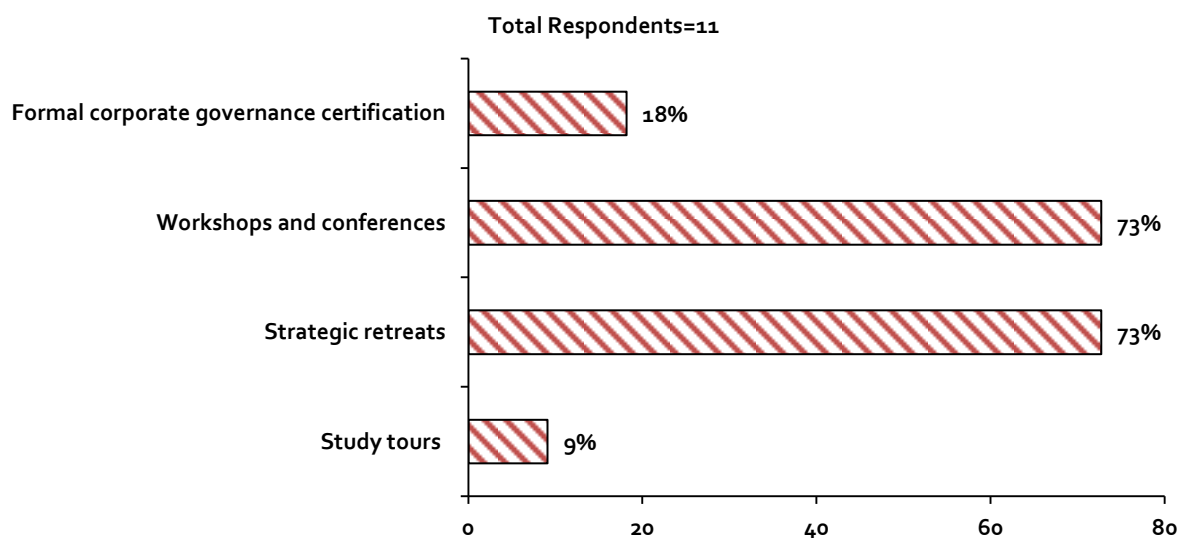
Indicator	Frequency
Average	3
Minimum	1
Maximum	4

Source: Survey Findings

Half of the Market Players indicated their Boards of Directors had Board committees. The Boards which had Committees reported having: audit and risk; asset and liability; investment; and compensation committees.

To boost the skills of Board Members in executing their oversight roles, Board development programs were undertaken by Market Players. Majority of the market players (73%) indicated that workshops and conferences as well as strategic retreats were the main channels employed in developing their boards (*see figure 20*).

Figure 20: Board Development Programs



Source: Survey Findings

Twelve (12) Market Players provided information on Board evaluation. Majority of the Market Players (58%) indicated that their Boards underwent evaluation (*see table 26*).

Table 26: Board Evaluation

	Frequency	Percentage (%)
Yes	7	58
No	5	42
Total	12	100

Source: Survey Findings

A large portion of the Market Players (83%) indicated that their Boards of Directors underwent evaluation annually (*see table 27*).

Table 27: Frequency of Board Evaluation

Duration	Frequency	Percent (%)
Annually	5	83
Quarterly	1	17
Total	6	100

Source: Survey Findings

2.10.2 Research and Market Analysis

A large proportion of market players (**14**), representing 93% of the respondents undertook research and market analysis with ten (**10**) of them publishing it. The publication was undertaken by: Genesis Kenya, UAP Financials, Crested Securities, Pinebridge, Standard Chartered Bank, Dyer and Blair, SBG Securities, PCP and African Alliance. Over half of the Market Players that published their research materials were Broker/Dealers (*see table 28*).

Table 28: Publication of Research Materials by Licence Category

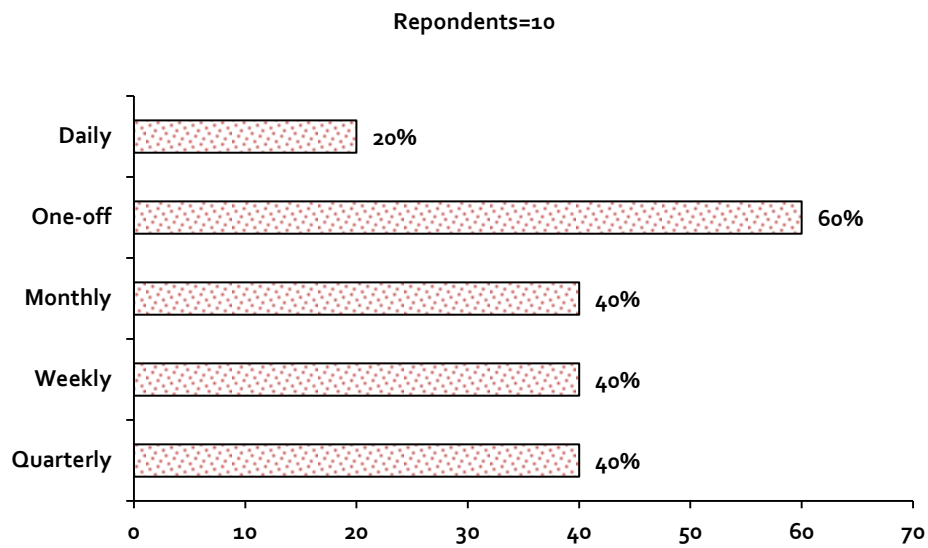
Licence Category	Frequency	Percent (%)
Broker/Dealer	5	56
Fund management	3	33
Investment Advisor	1	11
Total	9	100

Source: Survey Findings

The market players reported having a variety of research publications such as: Weekly Equity Reports; Quarterly Market Reports; Quarterly Economic Reports; Monthly Economic Reports; Daily Market Reports; company specific research reports; macro-economic research; fixed income research reports; and investor education research material. The most popular frequency for the publications produced by the Market Players was one-off (*see figure 21*).

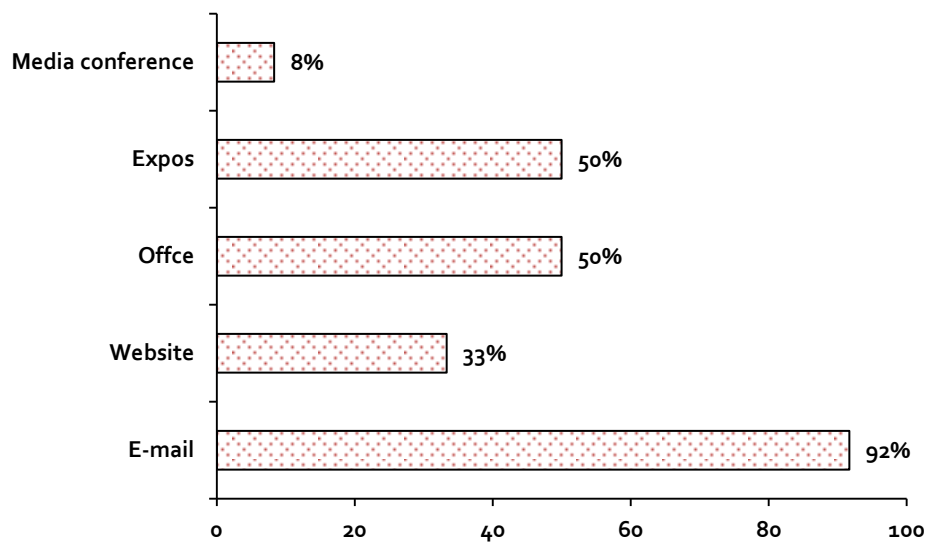
The most popular channel of distribution for research publications was through e-mail with ninety two percent (92%) of market players who published their research making use of this channel (*see figure 22*).

Figure 21: Frequency of Publications



Source: Survey Findings

Figure 22: Distribution Channel for Research Publications



Source: Survey Findings