Speech by Mr. Keith Kalyegira, CEO of the Capital Markets Authority (CMA) at the CMA Corporate Evening, 22nd May 2014 at Kampala Serena Hotel

Financing strategic growth of business - banks alone cannot grow Ugandan businesses,

Hon. Minister, Hon. Members of parliament, Chairman & members of the board of CMA, ladies & gentlemen

I thank you for accepting our invitation to this important event in the CMA calendar. I would also like to thank the CEOs of the companies invited, some of who have travelled from upcountry, for honoring our invitation. We see this as an indication of your interest in growing your business through the capital markets.

The capital market in Uganda is 16 years old. During this period we have seen 8 domestic listings & 8 cross listings from the Nairobi Stock Exchange onto the Uganda Securities Exchange. We would now like to see our market grow from the current 8 domestic listings to 30 domestic listings, or for the total value of listed companies to reach 20% of GDP by 2020 (it is currently USD 1.2 billion). In line with our strategic plan, going forward we will be raising awareness amongst company decision makers, of the merits of the capital markets as a source of long term patient capital to finance growth and expansion of your businesses, by issuing debt and equity securities. We intend to support this aspiration with targeted investor education outreach programs to make Ugandans appreciate the benefits of saving through the capital markets (as opposed to only buying land), starting with a planned annual campaign to reach 20,000 potential investors starting next financial year, in order to ensure that listed equities are actively traded. Increased liquidity, evidenced by active investor participation, is important for effective price discovery. Last year, Hon. Minister, our securities exchange traded about USD 100 million in equities which was 7 times more than the previous year. This year we expect the trades to exceed this – during the first 5 months of the calendar year, the USE equity turnover was about USD 80 million because of the UMEME sale. Bond turnover is still very low & yet bond turnover in the secondary market ought to be greater than equities.

To date, the total private sector credit – that is lending by Ugandan banks to the private sector, is approximately Ush.8 trillion which is about 15% of our GDP – the equivalent in Kenya is 40% of GDP. Ush.8 trillion is not enough to drive growth of the private sector. And yet many businesses with strong growth potential are unable to borrow further because they are heavily leveraged. You will all recall the impact on companies' profitability following the recent spike in inflation peaking at 30% in October 2011, which caused bank interest rates to rise sharply. Up to now, many companies, including banks, are still recovering from this abnormal economic event. Whether this will reoccur in the near future is anyone's guess.

Ugandan businesses need patient capital to grow & realize their full potential. A recent survey by African Investor revealed that the absence of financing constitutes 50% of the constraints to business growth across the African continent – the others being ‘business climate’ and ‘infrastructure’. As a result of absence of financing, many businesses with the potential of being competitive regionally, do not develop big enough strategic goals and aspirations. They have adopted a conservative or cautious stance preferring to grow slowly using internally generated cash flows, because of several stories of the failure of businesses that have attempted to grow rapidly using bank debt.

It is indeed possible for businesses to grow rapidly but safely with the right mix of capital and management skills as we shall hear from our key note speaker tonight.

I would like to share a quote by Bill Gates: “banking is a necessary but banks are not.” I want to believe by “banks” he referred to commercial banks having a monopoly over financial intermediation i.e. bringing borrowers & lenders together, and bringing issuers & investors together. This is increasingly being done by the capital markets (through the issue of bonds, commercial paper, equities, and other instruments)

Another tweet from the recent Africa Investor panel discussions on the sidelines of the World Bank Spring meetings last month in Washington read: “Banks alone are not the answer to building robust businesses in Africa.” – Mr. Admassu Tadesse, the President and CEO of PTA Bank

Having shared that, I know our friends in the commercial banking industry, would like to lend to companies with stronger balance sheets i.e. companies with more equity, so I believe this initiative is welcomed by bankers as well, afterall the banks too have turned to the capital markets for long term financing mostly through the issuance of bonds. Indeed the top 20 listed companies on the Johannesburg Stock Exchange include 4 banks (including Standard bank and Barclays bank).

Today, we would like you to consider the capital markets as an alternative form of funding your business.

How? Firstly, by selling a stake of your company to the public to raise capital – essentially carrying out an equity release. The first companies to do so will benefit from the first mover advantages of doing so within their respective sectors. There is currently approximately UGX 5 trillion in contractual savings (that is provident funds, life insurance, and collective investment scheme savings). It is estimated that this figure will grow to approximately UGX 13 trillion in 5 years’ time after the reforms in the retirement benefit sector kick-off. Up to 25% of contractual savings can be invested in equities.

Secondly, companies with a track record of profitability or utility service providers like the telecom companies, national water & sewerage corp, the civil aviation authority and independent power producers etc, can issue medium to long term bonds to finance their activities. Bonds are a great way of financing. They are generally much easier on your cash flows than bank debt. We intend to have several seminars with potential issuers of bonds in the near future. Another 10% of the 5 trillion I mentioned earlier can be invested in corporate bonds.

There are several other motivations for listing which the panel will discuss following the upcoming presentation. Allow me to touch on a few practical applications:

- Mining businesses need heavy capital investment long before they can be profitable. Local and international Investors can provide much of this risk capital on the expectation that upswings in commodity prices could see them reap benefits.
- Coffee exporters may want to consider selling shares to the farmers who supply them coffee as a way of obtaining supplier loyalty.
- Companies in service sectors like banks, insurance, telecoms and & marketing companies may want to sell shares to their staff and customers as a talent acquisition & staff retention, or customer retention strategy – if this had happened earlier, maybe we would have fewer fuel marketing companies as most senior staff end up starting their own fuel companies as soon as they leave formal employment.

I would like to assure the captains of industry and commerce here today that there is sufficient liquidity if you're seeking at least USD 4 million by issuing a proportion of your company's shareholding to the public through the stock exchange.

You may have several questions related to issues of disclosure – whether your trade secrets and strategies will not be available to competitors since your company is now public; whether you will not lose control of your company to other shareholders with different visions; whether being public means you have to start operating more bureaucratically because you have to report to a group of shareholders once every year; whether our stock exchange is liquid enough to support effective price discovery and determine the right value of your company; how long the entire process takes; how much would the entire exercise will cost; what are the other benefits you will derive by going public aside from raising capital; whether you wouldn't rather raise the capital you need through a much smaller group of public investors or private equity funds.

The answers to these and other questions you may have will be answered by a panel of experts who will be discussing our key note speaker's presentation this evening.

There are several companies within the region that have successfully turned to the stock market for capital. When I was given a list of options of these companies to select the most appropriate person to speak to you this evening, I was immediately struck by the story of ARM for reasons you will soon see and hear. I used half of my refund in the 2008 safaricom IPO to invest in the company at KES 108. I also know NSSF holds close to 1 million shares in the company through its fund managers. Today it is trading at KES 82.5, the equivalent of KES 625/= after factoring in the company's past share splits, up from KES 12.25/= when it was listed in 1997. This is a 51 times increase in value only 17 years after going public.

At this point, I would like to invite Mr. Pradeep Paunrana, the MD of Athi River Mining, to speak to us about a) the hesitations they had as shareholders & directors about going public, b) how long it took them to make the decision, c) what it costs them now in terms of continuous listing obligations, d) the benefits they have realized, from being listed, & lots more issues that are close to his heart as far as the company is concerned.

Ladies and Gentlemen, please join me in welcoming, Mr. Pradeep Paurana to address us tonight.