Speech by Mr. Keith Kalyegira, Incoming CEO of the Capital Markets Authority (CMA) at the farewell party of the outgoing CEO, Mr. Japheth Katto; 16th January, 2014 at Speke Resort Munyonyo

Honourable Minister; Honourable Members of Parliament here present; The Governor, Bank of Uganda; Mr. Chairman & members of the CMA board of directors; Invited guests in your respective capacities, Ladies & Gentlemen

As incoming CEO in his first month effectively, it is an honour to speak at this farewell function of Mr Katto my predecessor, who has been widely dabbed as father of the Capital Markets of Uganda.

Mr Chairman, in making my introductory remarks, I would like to thank you, on behalf of your board, for choosing me as your CEO. Thank you Honorable Minister for the appointment. It is a great honour to lead this important institution; one which I accepted with humility and excitement. Excitement about the opportunity it provides me to grow, to learn and to make my contribution to the growth of the capital market of our nation. I hope I am able to demonstrate adequate leadership to do justice to the confidence you have in me.

The feeling I have had for the past few weeks is similar to the feeling when one is about to embark on a trip to a place you've never been to before. Or the feeling of a golfer who has hit his or her ball into the rough, during a competition, and is wondering which iron club to use to exit the rough & gain distance. That is roughly where I am at the moment – a feeling of anticipation & a little apprehension at times.

The current CMA 3 year strategic plan, whose theme is "driving growth", provides me the platform for the continuation of the following two main activities that form the CMA's legal mandate:

i) The development of capital markets (through education to increase issuers and investors)
ii) The regulation of market participants and protection of investor interests.

I have to confess that this theme, "driving growth" is largely what excited me into applying for the role of CEO; a theme that is born from the need to realize the full potential of Uganda's capital markets. This does not in any way suggest I will take my eye off the core compliance & regulatory function considering that our ability to growth the markets would be severely impaired by one negative market incident.

Now, what does success for us mean? Success in driving growth will be measured by two key milestones based on the size of our economy.

1) <u>Raising the market capitalization of domestic listed companies from the current 6% to at least 18% of GDP.</u> This means having an additional 10 Ugandan companies the size of UMEME or 4 companies the size of Stanbic bank listed. This implies listing companies valued at UGX 6 trillion,

which is quite a feat considering that 90% of the domestic listed companies were directly as a result of the Public Enterprise Reform & Divestiture process between 2000 and 2007. To put it into some context, it is comparable to countries like Zambia & Viet Nam. Our neighbor Kenya's market cap is 36% of GDP (*and I acknowledge the presence of my counterpart at the CMA Kenya – Mr Paul Muthaura*). 2012 World Bank statistics put Uganda's stock market capitalization as a proportion of GDP at no.76 out of 111 countries boosted by 8 cross listed stocks from the Nairobi Stock Exchange.

2) The second key milestone to pursue will be to raise the market capitalization of corporate bonds issued from the current average of 0.4% of GDP, five times, to at least 2% of GDP or an additional UGX 600 billion (the Sub-Saharan African average is 1.2% of GDP, 17% in Latin America and 45% in Asia). This is not insurmountable considering the significant infrastructure financing needs in the water, rail, aviation, agriculture, education and energy sectors of Uganda.

The main rationale behind these goals is to ensure Uganda's contractual savings (that is life insurance funds, pension and provident funds) do not exceed the available listed equities, corporate bonds & govt bonds. Right now, contractual savings are approx. UGX 4.6 trillion. The level of tradeable equities is UGX 800 billion and Govt bonds are approx. 4.5 trillion. So if you include participation from foreign investors, the gap between local investible funds and investible products currently is not wide. Over the next 5 years, Uganda's contractual savings are estimated to grow 3 fold, to about UGX 14 trillion. Over the same period investment products could grow two fold to UGX 9 trillion, potentially leaving a shortfall of as much as UGX 4 trillion to flow out of the country seeking investments elsewhere, or being invested locally sub-optimally. The desirable situation would be to have a surplus of investment products over local contractual savings so that more portfolio investments are attracted into the country.

So, we (CMA, the USE, licensed intermediaries) intend to achieve these two milestones mainly through a) developing a client charter that holds us to specific turnaround timelines for licensing and product applications; b) continually publicizing the benefits of public and private equity. This includes listing on the newly established growth enterprise market segment at the Uganda Securities Exchange, which is an alternative exchange that has less stringent listing requirements targeting experienced investors; and c) promoting the benefits of corporate bonds to issuers and investors. Hon. Minister, I suspect many economic sectors in Uganda inundate you with requests for tax incentives from Govt promising immeasurable benefits. This is not the forum to demonstrate the benefits of incentivizing market activity, but I would like to assure you of significant monetary policy benefits of boosting the capital markets at this stage of its evolution or life cycle.

Let me stop at this point by calling upon CEO's and finance directors of companies here present to seriously consider issuing shares or debt to institutional and individual investors as a source of patient growth capital to finance long term investments. I would also like to call upon Government and Bank of Uganda to remain positively inclined to support the capital markets as an essential facilitator of foreign direct investment; the media to continue meaningful and fair coverage of the capital market and its various actors; and to all other guests present to support the growth of the capital markets in whatever way you can. Growing the financial marketplace is not the role of the CMA alone. This cannot be done without you all. Let Mr Katto be proud of his work wherever he may be in the sunset of his illustrious professional career. Japheth, I am sure I speak on behalf of your present & former staff, and the local and regional financial markets fraternity, when I say you have been a great mentor & an outstanding public servant. The presence of all these important people is testimony of this. Well done. Once again, I am exceedingly humbled and privileged to take over from where you have left off.

Thank you all for your kind attention and do enjoy the rest of the evening.