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Uganda Securities Exchange as a Medium of Trade: To What Extent Have the Private and Public Sectors Embraced It?

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Abstract The purpose of this paper is to review the extent to which the Uganda Securities Exchange has been embraced as a medium of trade and investment by the public considering that a well-functioning stock market enhances prospects for long-term economic growth. Only seventeen companies are trading on the Exchange in its 17 years of existence. This study sought to explore the extent to which the Exchange has been embraced locally. A cross-sectional design that involved both quantitative and qualitative study approaches was adopted. The study sample was drawn from employees of government departments, listed, and unlisted companies. Data were collected using questionnaires and interview guides. It was established that, as much as the Exchange grew over time, trading was still lukewarm with very many potential companies reluctant to list on the USE. Generally, investors are still apathetic about the Exchange. It is recommended that the Government should support the marketing, automation, and modernisation of the Exchange; and the Exchange should exploit the stock market trading potential to entice more investors to it.

Keywords: *stock market, economic growth, UGANDA securities exchange, medium of trade*

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1. Introduction

1.1. Background Information

A stock market, or a stock exchange plays the roles of providing a facility for raising funds for investment in long-term assets, mobilizing savings for investment, facilitating company growth, redistribution of wealth, creating investment opportunities for small investors, etc. According to Petram [10], the first stock market named *Verenigne Oost-Indische Compagnie* and abbreviated as VOC, was established around 1630 in Amsterdam. Many more stock markets have since been established. According to the World Stock Exchanges website, the New York Stock Exchange (NYSE) is currently the largest stock exchange with over 2,500 listed securities followed by Tokyo Stock Exchange (TSE) and London Stock Exchange (LSE) with over 2,300 and about 3,000 listed companies respectively. In Africa, there has been a considerable development of securities markets since the early 1990s [20] although many have had a very limited number of stocks and low trade volumes as a result of lukewarm public enthusiasm. Of the 29 stock exchanges in African, the Egyptian Exchange leads in the listing with 833 listed securities followed by the Johannesburg Stock Exchange at 402 listings.

The Uganda Securities Exchange (USE) which was the 17th to be established in Africa in 1997 has so far listed seventeen (17) local, cross-border and multinational companies. It had its first cross-border listing in 2001 [19], but the number has risen to the current nine. Although over *the years thousands of* direct and indirect investors have invested in its listed entities [9], it is evident that the public participation is still low. This may probably change over time considering that it is a member of both the African Association of Stock Exchanges (ASEA) and the East African Stock Exchange Association (EASEA).

1.2. Problem Statement

According to Yartey and Adjasi [21], stock markets positively influence economic growth through encouraging savings amongst individuals and firms. Moreover, because listing on stock markets implies disclosure of information to investors, accounting standards and management transparency in firms ultimately improve [4]. As of 2008, USE had failed to attract private companies (USE, 2008), and it seemed to depend heavily on Stanbic Bank which held over 92% of USE shares, and who's listing in 2007 breathed life into a previously moribund USE [8]. Indeed, since its inception 17 years ago, it has listed only 17 companies. Considering that there are many successful companies in similar industries as those already listed on USE, and going by the USE listing regulations [17], it is expected that many more, both local and international, qualify to trade on the USE. One, therefore, wonders as to why these companies have not done so. Incidentally, according to its official website, as much as USE has facilities for trade in corporate bonds, ordinary shares, preference shares, treasury bills, commercial papers, government bonds and asset-backed securities, it is only handling government bonds, corporate bonds and ordinary shares. In essence, USE's trading capacity is not fully exploited.

Contrary to the low number of listed companies, though, the public in Uganda has occasionally expressed enthusiasm in trading on the USE as exhibited by the Initial Public Offers (IPOs) oversubscription. While the Uganda Clays Limited (UCL) shares were oversubscribed by 15%, those of British America Tobacco Uganda (BATU) and Stanbic Bank Uganda (SBU) were oversubscribed by 5% and 200% respectively.

There is scanty literature that explains the dismal listing and trading on the USE; why of the few listed companies most are foreign yet there are many local eligible companies; why USE has failed to exploit its full operational potential; and, the extent to which individual and companies have embraced the USE as an alternative trading and investment option.

1.3. Purpose of the Study

This study sought to establish the extent to which the USE is endeared locally at both the individual and institutional/company levels as a medium of trade and investment. This was based on the premise that prior literature was indicative of a lukewarm reception by the local stock market players and the fact that the stock exchange has so far, 17 years after inception, listed less than twenty companies.

1.4. Significance/Originality

The potentials, successes and challenges that are established by this study will go a long way in enabling the government, through its regulatory and monitoring bodies (Capital Markets Authority [CMA], Bank of Uganda [BOU], and the Ministry of Finance, Planning and Economic Development [MoFPED]) to best help the USE succeed in addressing the impediments to it fulfilling its mandate. As such, the findings may help inform policy-making and by addressing the resultant recommendations aid in the marketing of USE as an economic growth driver that can attract potential individual and company subscribers both in the public and private sectors in Uganda and in the entire East African Community (EAC).

2. Methodology

2.1. Study Design

This study adopted a cross sectional study design and in employed both qualitative and quantitative approaches. Both primary and secondary data were collected and analysed. It was carried out in Kampala, the capital city of Uganda, which is also the home of USE.

2.2. Study Population

The overall target respondent population included the contact persons and members of staff of all the organisations and government departments that constituted the institutional study population. The institutional sample comprised of 44 organisations which were drawn from USE listed companies; unlisted companies; government institutions; USE; and USE licensed broker/dealers.

2.3. Sampling

Both purposive sampling and random sampling were used in determining the institutional and respondent study sample sizes. A total of 282 respondents targeted from 44 companies and institutions were involved in this study. The respondents were drawn from three categories of organisations/institutions. The first category comprised USE, the brokers/dealers and investment advisors; the second category was made up of government institutions whose activities are related to USE; while the third and last category comprised the USE-listed and unlisted companies.

Whereas USE, CMA, BOU, MoFPED, Uganda Investment Authority (UIA), Enterprise Uganda, National Planning Authority (NPA), Uganda National Chamber of Commerce and Industry (UNCCI), the USE listed companies and the stock market broker/dealers were purposively selected, the unlisted companies were randomly sampled from industries similar to those of the listed companies. This simple random sampling technique entailed determining the categories of companies to which the listed companies belonged to; identifying other companies that similarly belonged to these categories.

2.4. Data Collection

Both quantitative and qualitative data were collected using a questionnaire and an interview guide. These tools were pre-tested upfront.

2.5. Study Indicators

The key indicators used to measure whether companies, both public and private, are embracing USE as a medium of trade included the proportion of private and public companies that had been listed on the USE and the number of private and public companies that were trading through the USE or had at any one time traded through it. Other indicators were the number of respondents owing shares and for how long or in how many companies; the factors that had endeared companies and individuals alike to trade through the USE; and those that had done the opposite.

2.6. Data Analysis

Quantitative data were analysed using SPSS. This helped analyse the demographic data and data of numeric significance. The results were then presented in form of graphs, tables, frequencies and percentages.

The qualitative data was first of all transcribed and typed onto a computer. The Strauss and Corbin's six-step coding methodology was used. The steps, according to McFadzean [6] include: gathering qualitative data; organizing the data; fragmenting the data (open coding); categorizing the data (axial coding); linking the data (selective coding): and generating theory (developing theory). Strauss & Corbin (1998) as quoted by McFadzean [6], indicate that while open coding involves the generation of concepts from data, axial coding involves the development and linking of concepts into conceptual families, and selective coding is the formalizing of these relationships into theoretical frameworks. In general, this methodology is about inductive analysis, which according to Thomas ([14], p.1) is an approach of qualitative data analysis used to **"**(1) condense extensive and varied raw text data into a brief, summary format; (2) establish clear links between the research objectives and the summary findings derived from the raw **data** and (3) develop a model or theory about the underlying structure of experiences or processes which are evident in the raw data". The key steps of this analysis, and as applied in this study, are outlined in Table 1 as adapted from Creswell [2].

Table 1. The Coding Process in inductive analysis

Initial read through text data	Identify specific segments of information	Label segments of information to create categories	Reduce overlap and redundancy among the categories	Create a model incorporating most important categories
Many pages of text	Many segments of text	30-40 categories	15-29 categories	3-8 categories

Source: Adapted from Creswell, 2002, Figure 9.4, p. 266.

2.7. Reliability and Validity

Apart from pre-testing, the reliability of the collected quantitative data was tested by carrying out the Cronbach's alpha test under the SPSS in which the minimum acceptable value for reliability of 0.7 [3], the rule of thumb for Cronbach's alpha test results. In this study, the Cronbach's alpha value was 0.732.

3. Results and Discussions

3.1. Response Rate

While the institutional response rate was 79.55% (n = 44); that of respondents was 65.96% (186 respondents) out of the targeted 282.

3.2. Background Information of Respondents

3.2.1. Gender of the Respondents

Of the total respondents, 55.7% (n=282) were male while 44.3% were female. The gender distribution amongst the respondents owning shares and those who did not followed a similar pattern.

3.2.2. Age Distribution of Respondents

The majority of the respondents, 38.0% (n=282), were of the age group 25-29 years old followed by the age groups 20-24 and 30-34 years old, at 28.3% and 16.8% respectively. In total, about 83.1% of all the respondents were below the age of 35 years old implying that most of them were relatively young (Figure 1).

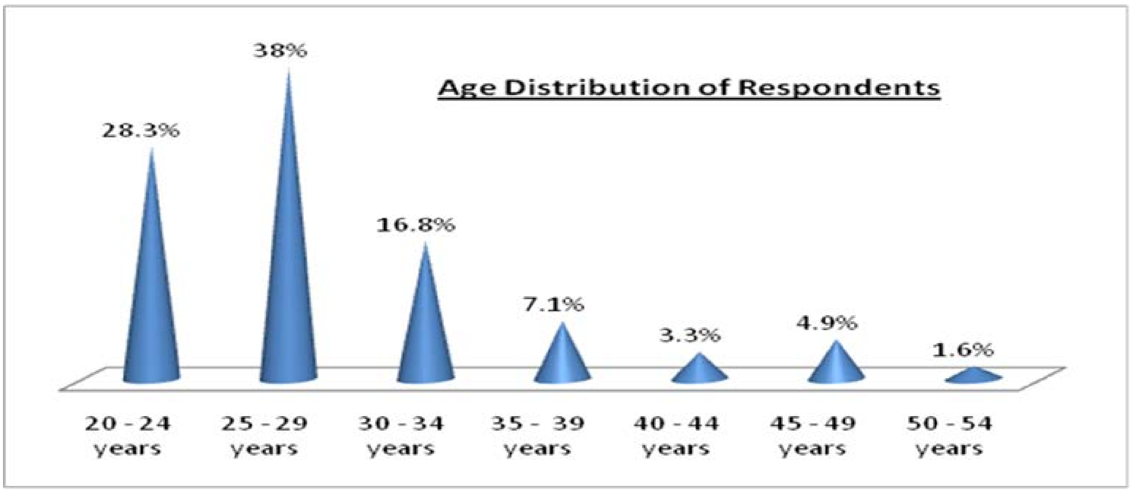

Figure 1. Distribution of respondents by age group

Most of the respondents were too young to have traded on the USE when it was just established in 1997 going by these findings. The relatively young respondent population may not be surprising considering the fact that life expectancy in Uganda is about 51.75 years and that about 60% of the population is below the age of 18 years [15]. All the respondents, therefore, belonged to less than 40% of the national population. Considering that the respondents were drawn from organisations, meaning that they were salaried employees, this representation could even be lower than this because according to UBOS [15], only 21% of Uganda's working population as of the FY 2009/10, were paid employees while 79% were self employed. The total labour force by then stood at 13.4 million persons.

3.2.3. Academic Qualifications of Respondents

Considering that investment in financial markets, and more specifically in the stock exchange, may not be well understood amongst the Uganda population, it was important to establish the level of education of the respondents. This was to aid in establishing the awareness of the respondents about trading on the stock exchange and also to establish whether education had any influence in shareholding. According to the findings (Table 2), majority were highly educated considering that 66.3% had a Bachelor's degree; 14.7% a Master's degree; and 0.5% a PhD degree. In total, 81.5% had at least a degree.

Table 2. Highest Academic Qualification of Respondents

		Frequency	Percent
Valid	PhD	1	.5
	Masters degree	27	14.5
	Bachelor's degree	122	65.6
	Diploma	19	10.2
	Certificate	3	1.6
	A-Level	5	2.7
	O-Level	7	3.8
	Total	184	98.9
Missing	Missing	2	1.1
Total		186	100.0

The high education status of the respondents meant that they were better placed to make investment decisions as it is presumed that they understand what stock markets are. While this percentage of degree holders may sound impressive, it should not be forgotten that the sampling of respondents targeted those in employment in the organizations that constituted the study sample. The general population is far less educated considering, for example that, the total university enrolment in 2011 of 140,096 candidates corresponded to just about 0.41% of the total population [15]. Further to that, the literacy level of Uganda stands at about 73% among persons aged 10 years and above [15].

3.2.4. Duration of Employment at Current Organization

Of the total respondents, 79.0% had worked at their current organisations for 1 to 5 years, followed by those in employment for 6 to 10 years at 18.3%. Only three out of the 186 respondents had worked for the current employers for fifteen years and above (Figure 2).

The employment duration findings were important in two aspects. One, they helped gauge the credibility of the data collected from the respondents and two, establish how stable the respondents were in employment. this was based on the premise that, employment stability is one of the pre-requisites on investment decisions, of which trading on the stock exchange is one.

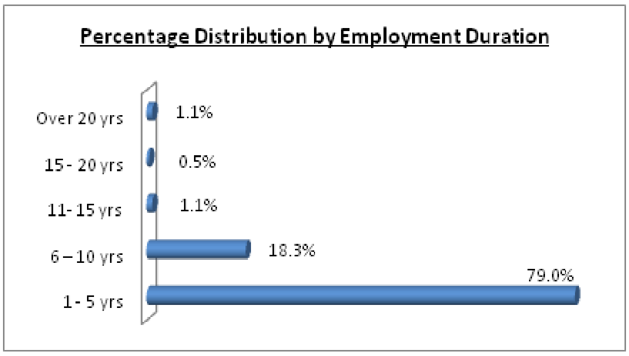

Figure 2. Duration of employment at current organization

3.3. Listing on the USE

The listing of the first ever product on the USE, the East African Development Bank (EADB) bond in 1998, followed by the Uganda Clays Limited (UCL) equity listing in 2000, resulted in the opertionalisation of the USE. Interestingly according to USE [19], this first equity, UCL, was oversubscribed indicating that, on the contrary, the level of enthusiasm of the public by then was high. Oversubscription was also reported on the rights issues by UCL and New Vision Limited (NVL). It can be argued that these two companies knew of the potential of USE to enable them raise their desired capital. The listing of SBU in 2007 breathed life and confidence into the USE [19]. The foreign companies apparently embraced the establishment of USE more than the local ones because there after, it was mainly the cross-listed companies from the NSE that boosted the USE operations.

3.3.1. Category and Nature of USE Listed Companies

So far 17 companies, apart from the USE All Share Index (ALSI), have been listed on the USE (Table 3).

Table 3. Details of the USE Listed Securities

	Counter	Full Name	ISIN	Sector/Products	Category
1	ALSI	USE All Share Index	UG0000000071		Local
2	BATU	British American Tobacco Uganda	UG0000000022	Tobacco Products, Cigarettes	International
3	BOBU	Bank of Baroda Uganda	UG0000000055	Finance, Banking	International
4	DFCU	Development Finance Company of Uganda Ltd	UG0000000147	Finance, Banking	Local
5	EABL	East African Breweries Limited	KE0009081092	Brewing, Beer, Gin, Spirits	Cross-border listing
6	JHL	Jubilee Holdings Limited	KE0000000273	Insurance	Cross-border listing
7	KA	Kenya Airways	KE0009081084	Aviation	Cross-border listing
8	NVL	New Vision Printing & Publishing Company Ltd	UG0000000162	Printing, Publishing, Broadcasting, Television	Local
9	SBU	Stanbic Bank Uganda	UG0000000386	Finance, Banking	International
10	UCL	Uganda Clays Limited	UG0000000014	Manufacturing, Construction Materials	Local
11	EBL	Equity Bank Limited	KE0000000554	Finance, Banking	Cross-border listing
12	KCB	KCB Group	KE0000000315	Finance, Banking	Cross-border listing
13	NIC	National Insurance Corporation	UG0000000758	Insurance, Banking	Local
14	NMG	Nation Media Group	KE0000000380	Publishing, Printing, Broadcasting, Television	Cross-border listing
15	CENT	Centum Investment Company Ltd	KE0000000265	Investments, Private Equity, Real Estate	Cross-border listing
16	USE LCI	USE Local Company Index	UG0000000881		Local
17	UMEME	Umeme Limited	UG0000001145	Power Distribution	Local
18	UCHM	Uchumi Supermarkets	KE0000000489	Supermarkets	Cross-border listing

The listed companies are in three categories namely the local, the cross-border and the international listed companies. The percentage distributions of each category and of the industries among the listed companies are shown in Figure 3.

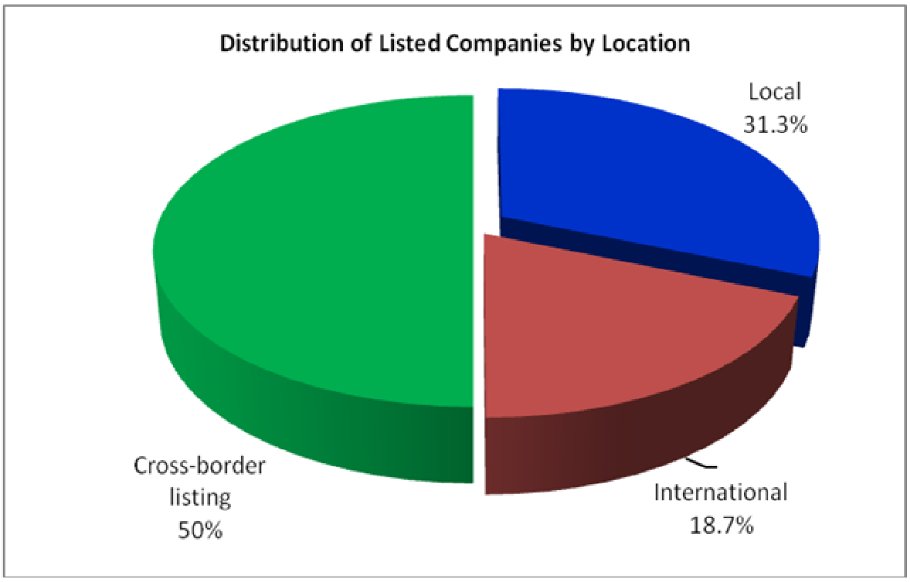

Figure 3. Categories of USE listed companies

Cross-border listing was observed to be the major contributor to the listing at the USE with 50% of the companies being cross-listed from the NSE in Kenya. Only 31.3% were local Ugandan companies while 18.7% were international companies that are operating in Uganda and therefore their International Securities Identification Numbers (ISINs) are Uganda. In terms of industries, the banking sector led in embracing the USE as an investment platform with a representation of 35.7% of all the listed companies. The aviation industry, that is the airline companies, and the investment industry came last with 7.1% listing each as shown in Figure 4.

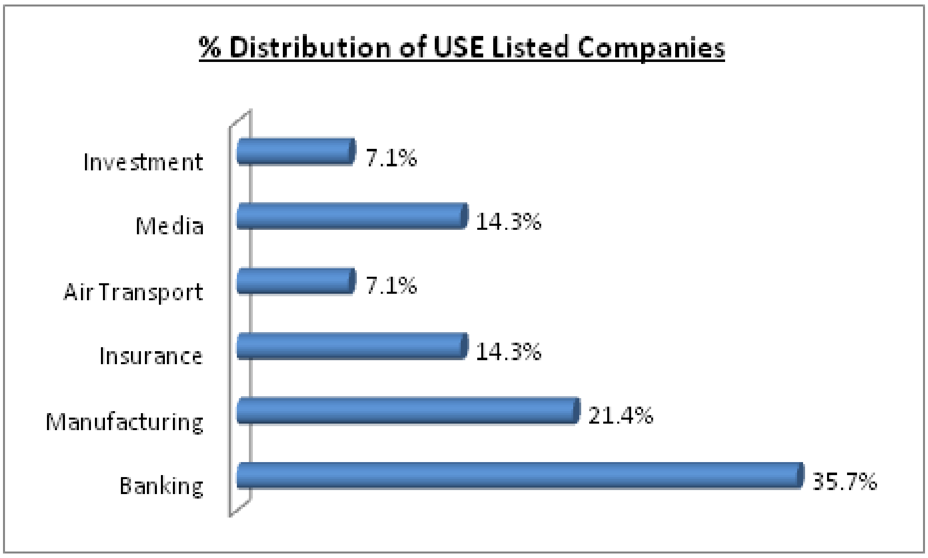

Figure 4. Percentage distribution of USE listed companies by industry

According to the results that foreign cross-border listed companies constituted 81.4% of all listed companies with the local companies contributing only 18.6% implies that the USE would have been further less development were it not for the foreign investors. This also means that the local market has not embraced USE as an investment alternative to the magnitude of the foreign investors. Among the number of concerns that arise from this scenario are whether: (1) the local companies do not fully appreciate the value of listing on a stock exchange; (2) the local companies are investor-shy and would rather stick to the traditional investment alterantives; (3) there could be some exemptions in the listing procedures that favour foreign investors at the detriment of the locals; and (4) since foreign companies are already listed in their home-stock exchanges, they understand better the benefits of going public and are taking advantage of the 'ignorance' of the local companies. Whereas these are pertinent concerns as far as understing the operations of USE better, they were not exhaustively delt with in this study.

According to the findings by this study, the banking sector had a representation of 35.7% of all the listed companies followed by manufacturing industry at 21.4%, media and insurance industries at 14.3% each, and lastly at 7.1% were aviation and investment industries. The banking sector may have performed that well because after all, it is conversant with trading on money unlike the other sectors. Even though, there are many other banks (local and foreign) that are operating in Uganda but have not listed on the USE. Other than that, it is actually the foreign rather than the local banks that contributed most to this percentage. DFCU is the only local listed bank in Uganda.

3.3.2. USE Trading Activities

A stock market grows if the number of players on its platform and the volume of trade they trade on increases. This has been the case with the USE, which according to Ngai [9], registered thousands of both direct and indirect investors and securities over the years. Using these indicators, the growth performance of USE has been witnessed to have fluctuated over the years. The ALSI trend maps [Figure 5(a) and 5(b)] as adopted from the USE rannual reports are evidence to the volatility of trading on the USE. The National Insurance Company [NIC] [7] attests to this by indicating that while in the FY 2007/08, the turnover, volume of trade, and market capitalisation grew by 72%, 10%, and 36% respectively, they all declined substantially the following year. The fluctuations notwithstanding, the performance of USE has been on the rise.

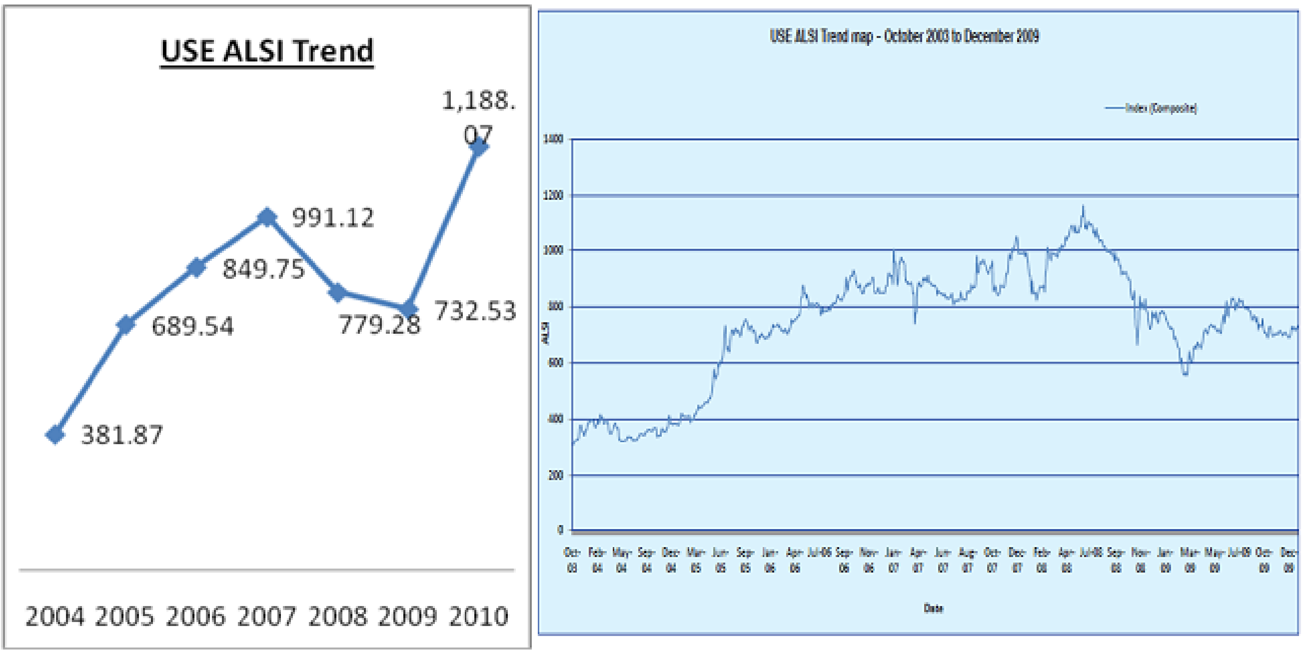

Figure 5(a). Annual Trend Map; b). Trend Map for October 2003 – December 2010

Finding investors has remained elusive but respondents felt that with more efforts and especially by educating the potential investors about the benefits of USE to their businesses, more will come on board.

The education should address both risks and benefits so that those wishing to get listed will do so from an informed point of view. Some respondents suggested that there may be need to review the documentation process which is considered to be bulky hence user-unfriendly. These and other endeavours were recommended as the way in which USE can broaden its spectrum of the investor community. It may probably be easy to start with the PTA Bank and Housing Finance Bank because these two, as per the USE website, are already trading on company bonds and as such they are not ignorant about the benefits of the USE.

As per the findings of this study, one respondent indicated that to boost the trading on the USE with a bid of giving an opportunity to the stock sellers and buyers increase their trading levels, the USE initially increased the trading days from twice a week, to thrice a week, and finally daily (Mondays to Fridays). From the available data, (USE annual reports) though, the volumes of shares traded did not proportionately increase with the increased frequency. Another approach was to automate its operations by introducing the CDS in place of the manual system.

Apparently, according to BOU annual reports, Uganda was going through tough economic times by when USE was established and this led to the scepticism that it may not pick up after all. For instance, several banks such as Cooperative Bank and International Credit Finance had just collapsed while Greenland Bank was also struggling before finally collapsing in 1998. Also, Centenary Bank had problems of following up employees who owned shares after they left the organization, hence complicating the fund management. All this led to dwindled confidence that financial institutions could be trusted with public funds. It was also considered as a strong indication that this was not the time to start a stock market.

As stated by one key informant, the establishment of USE also attracted both technical and financial donor support mainly from the World Bank. Other local activities that contributed to the growth of USE were the efforts of the BOU and MoFPED in the privatization of some government parastatals

3.3.3. USE Trading Operations

To assess the contribution by the different categories that constitute the USE listed companies, their share issues and capitalisation were reviewed. The findings as per data obtained from the official website of USE as of the 11th of November 2012 are displayed in Table 4. As for shares issued, the international category accounted for 52.7%, cross border 39.3% and the local had a dismal contribution of only 8.0%. As for market capitalisation, the contribution by the cross-border listing was 94.1% against 3.2% and 2.7% respectively for the international and local.

Table 4. Share Issues and Capitalisation of USE Listed Companies as of 11th Nov. 2012

No	Company			Shares Issues	Market Capitalization
1	Uganda Clays Ltd	UCL	Local	900,000,000	27,000,000,000
2	Development Finance Company of Uganda	DFCU	Local	248,600,911	256,058,938,330
3	National Insurance Corporation	NIC	Local	403,880,000	16,155,200,000
4	New Vision Ltd	NVL	Local	76,500,000	45,900,000,000
			Sub-Total	1,628,980,911	345,114,138,330
5	Centum Investment Company Ltd	CENT	Cross-border	604,947,013	223,830,394,810
6	East African Breweries Limited	EADL	Cross-border	790,774,356	5,709,390,850,320
7	Equity Bank Limited	EBL	Cross-border	3,702,777,020	2,740,054,994,800
8	Jubilee Holdings Ltd	JHL	Cross-border	45,000,000	231,120,000,000
9	Kenya Airways	KA	Cross-border	461,615,484	167,566,420,692
10	KCB Group	KCB	Cross-border	2,217,777,777	2,009,306,665,962
11	Nation Media Group	NMG	Cross-border	157,118,572	1,058,507,819,564
			Sub-Total	7,980,010,222	12,139,777,146,148
12	British American Tobacco (Uganda)	BATU	International	49,080,000	106,503,600,000
13	Bank of Baroda Uganda	BOBU	International	400,000,000	98,400,000,000
14	Stanbic Bank Uganda	SBU	International	10,237,733,940	204,754,678,800
Sub-Total				10,686,813,940	409,658,278,800
Grand Total				20,295,805,073	12,894,549,563,278

Source: Adopted from Uganda Securities Exchange (www.use.or.ug).

The findings point out that trading on the USE is foreign country-driven. This is an indication that the local market has not embraced USE as an investment alternative as expected.

It was also established that no stock market trading took place in the first two years (1998 and 1999) of USE's existence since by then there were no listed equities. As such, the stock market performance could not be evaluated for the period. According to the findings, the level of development of the stock exchange is still very low considering that the trading on its floor has been manual since the year 2000. According to Opagi as reported in USE 2007 annual report, USE needed to install a Central Depository System (CDS) to enhance its market performance as this provides an efficient mechanism for clearing and settling trading deals in the stock market. Apparently, Nairobi Stock Exchange (NSE) and Dar es Salaam (DSE) were already ahead on this.

3.4. USE as a Medium of Trade and Investment

Arising from the inter views conducted, a better understanding of the USE was that it is meant to be a barometer of the stock market activities. As such, it could be argued that the role of ensuring that these activities take place is the mandate of other players in the market. Specifically, it is the investors who drive the market since they provide an opportunity for the surplus unit (traders) to trade on the bonds, equities and whatever products they bring to the stock market. The USE can play a better role if it is demutualized, in which case it would go public and its product to be traded upon will be the USE Stock Market Index. At such a time, USE will best be evaluated based on the performance of its index. This will give it a better barometric role because the performance of its index will in turn reflect that of the entire stock market.

3.4.1. Respondents Owning Shares

A total of 58.3% of those who owned shares were male and so were 54.8% of those who did not.

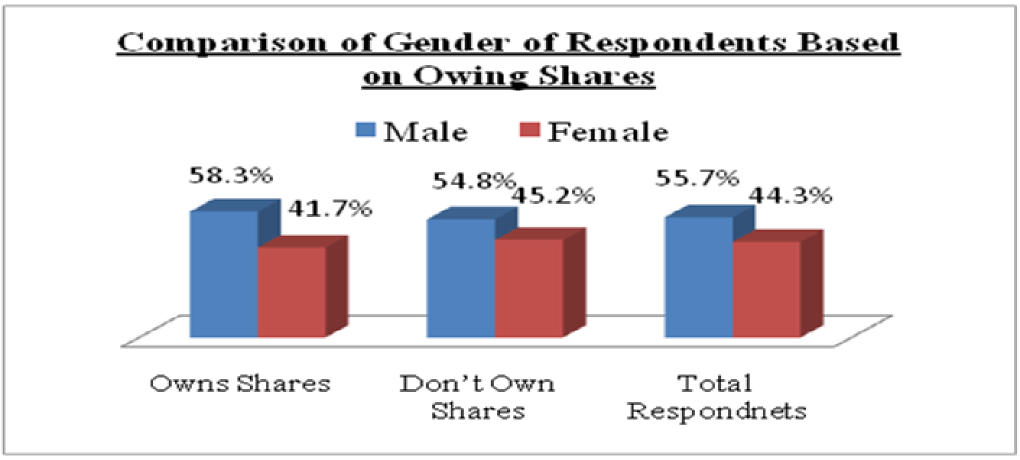

Figure 6. Gender of respondents and owning of shares

As much as the findings indicated that more male than female respondents owned shares, this was not conclusive because there were also more male than female respondents among those not owning shares. This arose from the fact that there were more respondents in total compared to the female.

3.4.2. Ownership of Shares by Organization Category

The findings are as shown in Table 5.

According to the findings as shown in Table 5, there were slight variations between the different categories. About 28.9% of the respondents under the regulator-contributor category; 36.4% under the broker-dealers; 30.5% under the listed companies; and 26.2% under the unlisted companies owned shares.

Table 5. Distribution of Share Owning by Organization Category

	Organization Category	Response	Frequency	Percent
1.	Regulator-contributor	Yes	11	28.9
		No	27	71.1
		Total	38	100.0
2.	Broker-dealer	Yes	8	36.4
		No	14	63.6
		Total	22	100.0
3.	Listed company	Yes	18	30.5
		No	41	69.5
		Total	59	100.0
4.	Unlisted company	Yes	17	26.2
		No	48	73.8
		Total	65	100.0

3.4.3. Number of Companies in Which Respondents Owned Shares

The findings were as indicated in Table 6

Table 6. Number of Companies in which Respondents owned Shares

S. No	organization category	Number of Companies	Frequency	Percent
1	Regulator-contributor	One	4	10.3
		Two	5	12.8
		Three	2	5.1
		≥ Four	0	0.0
		Non-Applicable	28	71.8
		Total	39	100.0
2	Broker-dealer	One	6	27.3
		Two	2	9.1
		Three	0	0.0
		≥ Four	0	0.0
		Non-Applicable	14	63.6
		Total	22	100.0
3	Listed company	One	11	18.6
		Two	5	8.5
		Three	2	3.4
		≥ Four	0	0.0
		Non-Applicable	41	69.5
		Total	59	100.0
4	Unlisted company	One	12	18.5
		Two	2	3.1
		Three	3	4.6
		≥ Four	0	0.0
		Non-Applicable	48	73.8
		Total	65	100.0

By summing up the frequencies under the number of companies in which respondents owned shares, Figure 7 was derived. According to it, of the 54 respondents owning shares, 61.1% owned them in one company; 26.0% in two companies; 13.0% in three companies, and none in four or more companies.

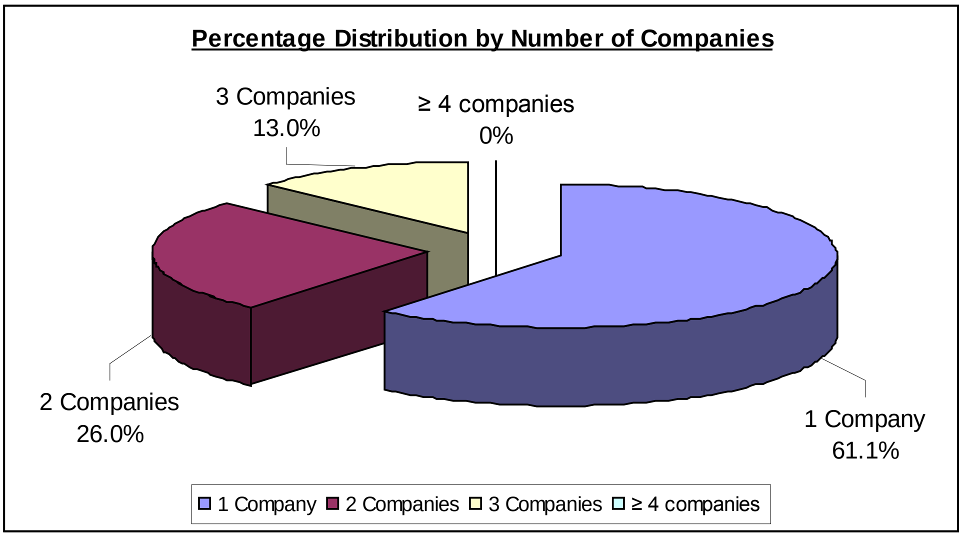

Figure 7. Percentage distribution of number of companies where respondents owned shares

The broker-dealer category scored the highest while the unlisted companies' category scored the least. In all categories, though, majority of the respondents (over 60%) did not own shares. In this study, owning shares was considered to be relevant since it gave an indication of the extent to which individuals have opted to trade on the stock market. This is an indirect measure of how members of the public understand the USE and financial marketing in general and how they perceive the benefits therein compared to other forms of investments. Incidentally, most respondents regarded share-owning a 'confidential' matter as evidenced by some institutional representatives were not keen that we identify respondents who own shares and who did not during the data collection exercise. As such, as much as the initial intention was that 50% of the respondents be shareowners, this was not possible in most cases, and the distribution of the questionnaires had to be done randomly. This random approach was, however, found out to be important because it helped to randomly pick out the percentage of employees owning shares as they responded to the question on share-owning.

From the findings, it was clear that buying of shares as an investment option has been embraced by just about one third of the respondents. Apparently, the broker-dealer category scored the highest (36.4%) while the unlisted companies scored the least (26.2%). This could partly be because stock market trading is the core business of the former and not the latter.

It is important to remember that this study was not intended to establish how many employees in various organisations own shares but to get an overview of their perception concerning USE and the economy of Uganda. As such, the proportion of those who owned shares amongst the entire study sample served to point out that; in general, shareholding was an investment option of the few. While this average percentage is well below 50%, it does not mean that owing shares as an investment option is unpopular. Probably the best way to judge would have been to establish the different investment options there are, and carry out an analysis on the preference percentage for each. This was, however, beyond the scope of this study and, therefore, it remains to be established as to how (un)popular share-owning is against other investment options.

In general, the USE has not attracted much interest from the local private and public companies. Further to that, its major activities are driven by cross-listed and international companies as reported earlier. This situation is partly blamed on the small investor population coupled with the relatively underdeveloped financial sector that is characterized by high cost of borrowing. Individual interest in trading over the USE also seem to be limited mainly to just buying shares during the IPOs. Indeed, IPOs occasionally recorded oversubscription. For instance in the year 2000, BATU and UCL reported a 5% and 15% IPO oversubscription respectively; SBU in 2007 had an oversubscription of 200%; and lately, in November 2012, UMEME Ltd which went public then, recorded an oversubscription of about 36.9% after selling more than 622 million shares to the public, employees and international nvestors [11]. Similar scenarios were witnessed when UCL and NVL went for rights issues. As stated elsewhere, such enthusiasm seems to die with the conclusion of the IPOs because very little trade is recorded thereafter. For instance, the trading price of UMEME in the Secondary market (USE) had stagnated at IPO selling price of Ush 275 by mid-January 2013 [15].

The findings clarify the point that being knowledgeable about the importance of the stock market and practically trading on it are two different aspects. Whereas a majority (64.3%) thinks it is important, only 29.03% of the respondents owned shares. This large discrepancy implies that the respondents may be rather ignorant of the individual benefits of trading on the stock market or had their own reservations on trading on the USE. As much as this study did not establish how many of the respondents owning shares actually trade on them, this may be a good research area as it helps identify whether the respondents owning shares fully understand the potential benefits of trading on the stock market.

3.4.4. Number of Companies in Which Respondents Owned Shares

In determining the number of companies in which respondents were shareholders, the study was meant to establish the level of understanding of trading on the stock market. The more the number of companies the higher was the extent to which an individual was perceived to have appreciated and embraced the USE as an investment alternative. The findings indicate that, in total, 54 out of the 186 respondents owned shares. This is equivalent to 29.03%.

While there are no limits in the number of companies one can buy shares, the findings of this study indicate that none of the respondents had shares in four or more companies yet fourteen companies are so far listed on the USE. It is clear that most of the respondents just responded to IPOs, bought shares and stopped there. Alternatively, some may have bought shares in one company, sold them after sometime and bought others from other companies. The fact that none of them bought shares in more than three companies implies that these respondents were not very active stock market traders. Incidentally, this applied even to the broker/dealer companies whose employees one would have expected to understand stock market trading better. This may, however, not been surprising considering that even their level of 'enthusiasm' to participate in this study was not outstanding (65.96% for all respondents and 68.60% for broker/dealer respondents).

What was not established by this study was how many of the respondents traded on the primary market, during IPO, or on the secondary market, through the USE brokers. This could have brought out the extent to which the respondents traded with their shares.

3.3.3. Duration of Owning Shares

The findings in this case were as illustrated in Figure 8.

Of the 54 respondents who owned shares, 81.5% had owned them for not more than four (4) years. This translates into them having bought the shares about ten years or more after USE become operational. Only 1.9% each owned the shares for 9-12 years and for above 12 years. This means that most of the respondents were new to stock market trading. Incidentally, of the 81.5% who had owned shares for not more than four years, it is possible that a substantial percenatge of them may have owned the shares for even one year.

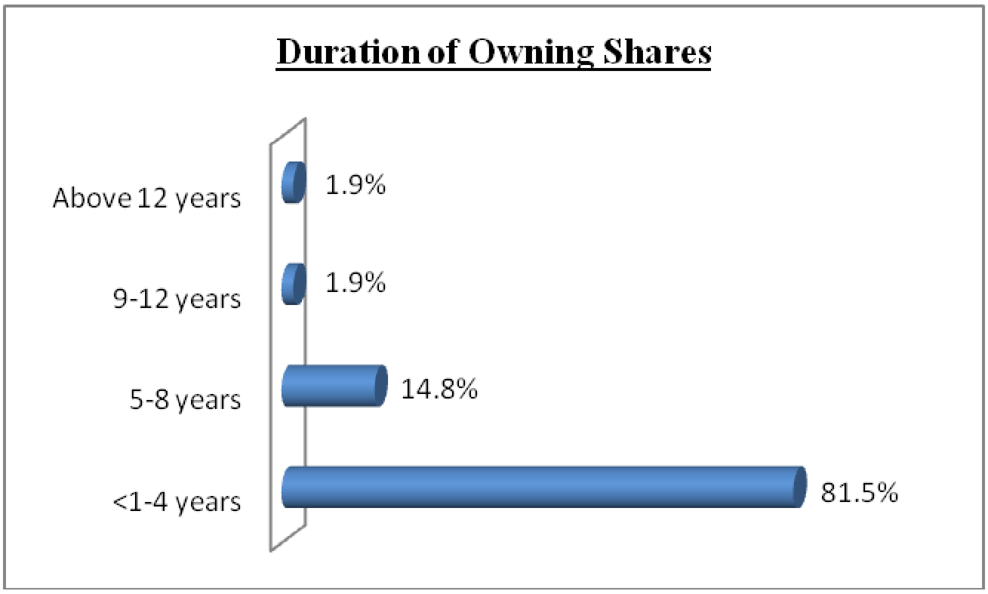

Figure 8. Duration for which respondents owned shares

3.4.5. Benefits of Owning Shares

The benefits as indicated by those who did included: earning dividends; capital gains; trading of the shares for profits and buying more shares; shares serving as a form of saving; using the share certificate as loan security (collateral); boosted financial status; fame; becoming a shareholder in the company; and trading on USE being a source of income. Some also indicated that it enabled them to participate in annual general meetings (AGMs) and to know people who mater in the companies they bought the shares. Some, however, indicated that they either got no benefits because the companies in which they were shareholders were not making profits, or, they had just bought their shares and were, therefore, waiting to see what benefits will arise. In general, most of the respondents listed only one benefit, which in most cases was dividends, while a few others listed two or three benefits comprising of dividends, participation in AGMs, and capital gains. While this may be true that many respondents saw dividends as the only benefit, it can be said that they are ignorant of the many benefits that stock markets can offer. This is attested by the fact that collectively the respondents pointed out at least ten benefits. The ignorance can also be supported by the fact that many (61.1%) of those who owned shares had bought shares from only one company. At the same time, very few of these respondents indicated that they also benefited from trading their shares on the stock exchange.

3.4.6. Merits and Demerits of Listing on the USE

Based on a Likert scale rating where: 1= strongly agree; 2= agree; 3= undecided; 4= disagree; 5= strongly disagree, most of the respondents (53.9%) by average agreed with the ten merits listed in Table 7 followed by those who ‘strongly agreed’ to it at 30.1%. About 10.2% were undecided about this while collectively 5.7% dismissed the list.

Table 7. Percentage Rating of Merits of Listing on the USE

		Percentage Rating				
	Merits	1	2	3	4	5
1	It increases availability of immediate capital as the company sells shares	38.8	54.6	4.4	1.6	0.5
2	It enables the company create a market for its shares	31.1	57.9	7.1	2.2	1.6
3	It enhances financial position of the company	33.1	54.1	6.6	5.5	0.6
4	It increases public awareness and interest in the company and its products	28.4	60.7	7.1	3.3	0.5
5	It provides the company with an opportunity to implement share option schemes for its employees	19.8	58.2	15.9	5.5	0.5
6	It creates a provision for accessing additional funding in future by means of new issues of shares or other securities	33.0	52.2	8.8	6.0	0.0
7	It facilitates acquisition opportunities by use of the company's shares	26.8	50.8	12.8	6.1	3.4
8	It offers existing shareholders a ready means of realizing their investments	28.0	46.2	19.8	6.0	0.0
9	It markets the company	32.4	48.9	12.6	4.9	1.1
10	It helps instil good governance and accountability in the company	29.8	55.2	7.2	7.2	0.6
	Average Response	30.1	53.9	10.2	4.8	0.9

In summary, 84.0% of the respondents responded in affirmative, 10.2% were undecided, and 5.7% disagreed. Other than the above list, the interviews with key informants brought out other relevant merits. Among them were that companies can access unsecured capital while individuals access dividends when companies they invest in realize profits. Companies can also access debt if their cash-flow can support that. Other merits are that listing on a stock exchange enhances transparency; it ensures the public get shareholding in listed companies; it promotes saving and investment; it mobilizes long term resources by deficit units; it is a measure of development especially by foreign investors hence attract them; and it is useful in credit rating

As far as demerits were concerned, it was established that as much as the respondents also agreed to the listed demerits of stock markets, the level of agreement was lower (66.7%) compared to the 84.0% of merits. While 17.1% were undecided, 16.1% dismissed the list.

Table 8. Percentage Rating of Demerits of Listing on the USE

	Demerits	Percentage Rating 1	2	3	4	5
1	There is loss of management control due to many shareholders	21.0	29.8	18.8	24.9	5.5
2	The company becomes more vulnerable to an unwelcome takeover	16.6	39.2	16.0	20.4	7.7
3	There is loss of privacy as a result of media interest	21.5	51.9	12.7	12.7	1.1
4	The management has to relinquish part of its control to the public	23.3	50.0	13.9	12.2	0.6
5	There are increased costs in complying with reporting requirements	23.5	43.6	20.7	10.1	2.2
6	Listing process is very tedious	20.0	47.2	17.2	12.2	3.3
7	There is need to observe and adhere strictly to rules by regulatory bodies	28.2	52.5	13.3	6.1	0.0
8	The listing costs are very high	17.1	39.2	31.5	8.8	3.3
9	There are additional obligations and reporting requirements on the companies and its directors	22.0	57.1	13.7	7.1	0.0
10	The company becomes more accountable to public shareholders	22.2	54.2	14.0	6.7	2.8
11	Listing diverts the focus of the management from profitability to complying with listing rules and regulations	14.4	39.4	16.7	21.1	8.3
	Average Response	20.9	45.8	17.1	12.9	3.2

3.4.7. Reasons Why Some Eligible Companies Have not Listed on the USE

To establish the possible reasons to the stock market listing apathy, a Likert scale rating where: 1= strongly agree; 2= agree; 3= undecided; 4= disagree; 5= strongly disagree was used and the findings are shown in Table 9.

Table 9. Possible Reasons for Companies not listing on the USE

	Reason for not being Listed on USE	Percentage Rating 1	2	3	4	5
1	The fear for loss of management control to shareholders	33.7	47.8	5.1	11.2	2.2
2	The fear that the company will become more vulnerable to takeovers	19.7	51.9	12.6	14.2	1.6
3	The fear for loss of privacy as a result of media interest	24.6	54.7	11.2	8.9	0.6
4	The fear for the high costs involved in complying with reporting requirements	17.7	56.9	11.6	11	2.8
5	The fear that the listing process is very tedious	20.3	50.5	18.1	9.4	1.7
6	The fear that the company will be forced to strictly observe and adhere to rules by regulatory bodies	25.4	53	10.5	9.4	1.7
7	The fear that the listing costs are very high	25.6	42.2	17.2	15	0
8	The fear that there will be additional obligations and reporting requirements on the company and its directors	25.3	51.6	11.5	10.4	1.2
9	The fear that the company will have to become more accountable to public shareholders	29	43.7	14.8	12	0.5
10	The fear that the listing will divert the focus of the management from profitability to complying with listing rules and regulations	18.9	45.6	17.2	13.9	4.4
	Average Response	24.0	49.8	13.0	11.5	1.7

Averagely, 24.0% of the respondents strongly agreed to the reasons; 49.8% just agreed to them; 13.0% were undecided; 11.5% disagreed; and 1.7% strongly disagreed.

The qualitative findings as to why some companies have not listed on the USE as obtained from interviews as summarised under thematic areas outlined in Table 10:

Table 10. Why Some Companies are not Listing on the USE

S. No	Theme	Respondents' supporting Statements
1.	Disclosure of company performance	"Disclosure of company performance, especially financial disclosure as required under the USE listing rules and regulations, is a deterrent to many eligible companies listing on the USE."
2.	Loss of 'absolute sovereignty'	"Listing rules that require bringing on board at least 1,000 shareholder leads to 'loss of 'absolute control over the company by the founders/owners." "Some of the supposedly well performing companies are family businesses which operate as sole proprietorships. Such are reluctant to list on the stock exchange." "Owners of family businesses are reluctant to let go their 'absolute sovereignty' despite the possible benefits of going public."
3.	Reporting requirements	"Reporting to shareholders, the USE, and the CMA as required by the listing regulations is rather demanding and this would bring in additional workload."
4.	The listing costs and fees	"The listing costs and fees are too high hence repulsive."
5.	Stringent listing requirements	"The listing requirements such as the asset base, percentage of shareholders to be brought on board, are too stringent." "The listing process involves heavy paper work and this is an impediment to eligible companies wishing to list on USE."
6.	The spectrum of products traded on the USE	"The spectrum of products traded on the USE is unattractive because it is rather narrow."
7.	Pessimism by potential investors	"Potential investors are pessimistic following the collapse of financial institutions in the past." "... with the collapse of Greenland Bank, Cooperative Bank and the International Credit Bank, customers lost millions of shillings."
8.	Foreign-owned Companies operating in Uganda	"Many companies operating in Uganda are foreign owned and most are listed in their home stock exchanges which apparently may be more lucrative." "The NSE cross-listed companies have listed on the USE just to market their existence locally."
9.	The business mind frame of local investors	"The mind frame of many local investors is still narrow hence many of them engage in petty trading." "Many investors do not either meet the listing requirements or are not keen to think long-term as is the case with listing on a stock exchange."
10.	Companies with unclear sources of funding	"Some companies with unclear sources of funding or those that have failed to adhere to statutory requirements are unlikely to go public since they will fear to disclose all this."
11.	Double taxation	"Double taxation where companies pay taxes on both their profits and also on dividends is repulsive."
12.	Ignorance/limited awareness of the USE benefits	"Many local investors are ignorant about the benefits offered by stock markets."

The broker-dealer category of respondents were very strong on the responses that the supposedly eligible companies that have shied away from listing is because they fear to lose their management control to shareholders; that the listing process is very tedious; that they will be forced to strictly observe and adhere to rules by regulatory bodies; that the listing costs are very high; and that there will be additional obligations and reporting requirements on the company and its directors. In summary, this category, which is the one that plays the key role in the secondary stock market, seems to suggest that the main topmost reasons revolve around management control, listing processes, listing costs, and public reporting. Respondents from the listed companies also support the reason that there is fear by the companies that they will additionally be required to report on their operations and directors to regulatory bodies and the shareholders, while the regulator-contributor category indicate that the topmost reason for the companies failing to list is the fear that they will have to become more accountable to public shareholders. Apparently, the reason that these companies fear that the listing costs are very high was not as strongly support by the other three categories as much as it was rated highest at 86.4% by the broker-dealer category.

There has been a general feeling that the USE listing regulations are too stringent. For instance, the USE regulations of 2003 state that for a company to list on the USE under the MIMS segment, it must be a public company limited by shares incorporated, have a share capital of at least UGX 1,000,000,000 (one billion), have a minimum asset value of UGX 2 billion, register 1,000 shareholders, and offer at least 20% of its shares to the public. Interestingly, of the eight companies that were earmarked for listing by the time the USE was being licensed in 1997 (Cohn and Zake, 1999), only three-NIC, BATU, and NVL-have so far listed to-date.

3.4.8. USE Failure to Exploit Its Full Trading Capacity

Key informants were required to give their opinion as to why the USE has not fully exploited its potential considering that it is only handling government bonds, corporate bonds and ordinary shares, yet it has facilities to also trade on preference shares, treasury bills, commercial papers, and asset backed securities. According to one of the respondents, “USE is still shallow and narrow as much as it is very relevant to the economy of Uganda since it provides an alternative source of funding.” Another one indicated that this is because the liberalization implementation methodology employed did not favour the USE. According to him, “…the government-owned corporations (i.e. parastatals) should have been offloaded through the USE during the privatization process and as part of the regulations; part of their shareholding should have been passed over to the public…” It was also indicated that USE only serves as a trading platform and that it is the market players, especially sellers, who should actually introduce these other products by availing them through the USE.

As already indicated, USE offers only three products namely government bonds, corporate bonds, and ordinary shares out of the seven possible products for which it has the capacity to. It does not deal in preference shares, treasury bills, commercial papers, and asset backed securities which would otherwise lead into USE being better developed and more credible hence be able to attract actors for the products. Another key informant stated that, “…as much as the BOU supported the coming in of USE through funding and listing of government bonds on the stock market, the USE may need further liberalization to become more vibrant”. What was meant by this respondent was that USE needs more autonomy and less control from CMA and BOU. How this will translate into better performance is not clear. Possibly, there may be need to revisit the regulation statutes and the mandate of USE to see if there are any regulatory impediments to USE’s performance.

4. Summary, Conclusions and Recommendations

4.1. USE as a Medium of Trade

Cross-border listing was the major contributor to the listing at the USE with 50% of the companies being cross-listed from the NSE in Kenya. In terms of industries, the banking sector had a representation of 35.7%, while the aviation and the investment industries came last with 7.1% listing each.

In terms of shares issued, the international category accounted was highest at 52.7% while for market capitalisation the contribution by the cross-border listing came first with 94.1%. The findings point out that trading on the USE is foreign country-driven.

It was established that of the respondents owning shares, 61.1% owned them in one company and that 81.5% had owned the shares for not more than four (4) years. The benefits enjoyed by those who owned shares included: earning dividends; capital gains; trading of the shares for profits and buying more shares; shares serving as a form of saving; using the share certificate as loan security (collateral); boosted financial status; fame; becoming a shareholder in the company; and trading on USE being a source of income. In summary, many reasons were floated to explain why many companies considered to be eligible for listing on the USE have not done so. Also just below half of the respondents indicated that the USE lived up to its mandate.

4.2. Study Conclusions

- **USE as a medium of trade and investment**
  The role of USE in economic growth is limited compared to that of individual and company investors since it is only meant to provide a trading platform for these players. These investors drive the market since they provide an opportunity for the surplus unit (traders) to trade on the bonds and equities. USE is expected to play a better role when it is demutualized as this will allow it to go public and its product, the USE Stock Market Index, traded upon. At such a time, USE will best be evaluated based on the performance of its index.
- **Respondents owning shares**
  Buying shares as an investment option has not been popular considering that it has been embraced by just about one third of the respondents. In general, the USE has not attracted much interest from the local private and public companies. Further to that, its major

activities are driven by cross-listed and international companies while individual investor interest seems to be limited to just buying shares during the IPOs. For instance, none of the respondents possessed shares in more than three companies yet 17 companies are so far listed on the USE. These share owning respondents were also new to stock market trading since most of them had not owned the shares for more that four years. They, however, indicated that there are several benefits of owning shares among which were: earning dividends; trading of the shares for profit; using the shares as a form of saving; using the share certificate as loan collateral; and becoming a shareholder among others.

- **Merits and demerits of listing on the USE**

Among the merits of listing on the USE were that it increases availability of immediate capital as companies sells shares; it enables them to create a market for their shares; it enhances their status and financial standing; it increases public awareness and interest in the companies and their products; and it provides them with an opportunity to implement share option schemes for their employees. It also creates a provision for accessing additional funding where companies can issue new shares or other securities; facilitates acquisition opportunities by use of the companies' shares; offers existing shareholders a ready means of realizing their investments; markets the companies; and helps instil good governance and accountability in companies.

On the other hand, demerits, which were basically primed of fears, were that listing on the USE leads to loss of management control due to many shareholders who become part of the company as the management has to relinquish part of its control to them; it makes the companies becomes more vulnerable to an unwelcome takeover; and leads to loss of privacy as a result of media interest. It was also feared that listing diverts the focus of the management from profitability to complying with listing rules and regulations.

- **Reasons for companies not listing on the USE**

A number of reasons were put forward to explain why many eligible companies have opted not to list on the USE. Most of them were about fears and possibly not facts. For instance, such companies fear that they will lose their management control to shareholders; they will become more vulnerable to takeovers; they will lose their privacy as a result of media interest; and they will incur high costs in complying with reporting requirements. They also fear that the listing process is very tedious; that they will be forced to strictly observe and adhere to rules by regulatory bodies; and that the listing will divert the focus of their management from profitability to complying with listing rules and regulations. Other reasons were that the listing process is tedious, involving a lot of paperwork and very expensive. The narrow spectrum of products traded on the USE was also considered be unattractive.

4.3. Recommendations

i. The Government, through its various departments that are concerned with the country’s economy, should strongly market the USE to both individual and institutional investors, both locally and internationally.

ii. The government should support and modernize the USE and use it to attract foreign investors starting with those already operating within the EAC market

iii. The government through the USE, BOU and the CMA, should deliberate on the reasons why many eligible companies have failed to list of the USE.

iv. Take advantage of the EAC ‘free-border’ market to improve its performance and exploit its stock market trading potential. It may need to broaden its spectrum of the investor community by starting with companies that are already inclined to it such as the PTA Bank and Housing Finance Bank (HFB), Uchumi Supermarket etc.

v. Lead in educating the public, at individual and institutional levels about the benefits of trading on the stock market as an alternative to the traditional investment avenues. To entice potential investors, the public awareness and education given should address both risks and benefits so that those wishing to get listed will do so from an informed point of view.

vi. Demutualise so that it can also go public since by doing so it will attraction more investors as a result of increased investor confidence.

vii. Fully automate its operating systems just like other EA stock markets. By embracing ICT more, it may be need to cut down on the paper documentation process which according to the study findings was considered to be bulky and user-unfriendly.

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