

WE HAVE TRADED 16 BONDS GROSSING ABOUT SH388B. WHEN IT COMES TO EQUITY LISTINGS, WE

# 20 years of raising capital,

The Uganda Securities Exchange (USE) has gone through several changes since it opened for trading in January 1998. The USE's chief executive officer Paul Bwiso had a chat with the *New Vision's* Samuel Sanya about the organisation's past, present and future. Below are excerpts:

**Q: What does making 20 years mean to the Uganda Securities Exchange?**

A lot has changed for an exchange that was once

based on Nkrumah Road to one that is now located at the UAP business park in Nakawa, probably one of the biggest buildings in the country. The company has grown from about two staff to about 25 currently. We have moved from having a manual trading system to an automated system. We have moved from having paper certificates to having an automated Securities Central Depository (SCD). We have an automated trading engine with a system that enables brokers

to trade from anywhere in the world. We have demutualised the Exchange; a lot of people thought that would not happen. A lot has happened, on the transaction side.

We have traded 16 bonds grossing about sh388b. When it comes to equity listings, we have traded about sh1.2 trillion.

The numbers are good, but not yet good enough. I think we should have had more support and more advocacy in the market because the exchange is a barometer for the economy. So if it is not utilised as a vehicle for long term financing by the private sector and government, then that is a weakness and I think that is where we have to put a lot of effort to get the politicians and all relevant stakeholders on board to understand how the USE functions.

## What has been your proudest moment at the Exchange?

The demutualisation culminated everything I had set out to do. It was one of the objectives that I was given by the board. Until last year, the Exchange has been able to run profitably. We have reorganised the business by separating the Exchange from SCD, among other things. Otherwise, I think that the Umeme transaction was a game changer for



**Paul Bwiso, USE's chief executive officer**

the Exchange as a whole, because this was a public company with a lot of public interest. It brought a lot of new dynamics to the market.

Previously, we mainly had financial institutions listed, but Umeme was structured differently. Firstly, it offered 40% of its holdings at initial public offer (IPO), and then it made several secondary offers. The impact of Umeme holdings exiting has resulted in turnover of over sh46b in 2014, sh187 in 2015 and sh273b in 2016.

The ability to raise money from the

public was quite useful for Umeme. I think Umeme has been good for the market overall.

Automation of the market was also a key moment. We are set to make it possible for investors to directly trade on the market. Right now we run a sponsored market and investors have to go through a broker. The system should be doing a lot more, but we are using it at only 30% to 40% of its capacity.

We want to tap into the mobile money market which has massive potential for floating bonds and equities. Tapping into the mobile money market will ease trading and ensure that investors do not have to walk to the door of a broker to participate in an IPO. We are trying to be creative on our legal side to ensure that someone who wants to get into innovative financial solutions such as commercial paper, can benefit from an automated process for getting approvals and getting investors. We want to make it possible for a broker to have a drop box site with a lot of information for investors to read and then from there a company can raise money.

We are trying to change the way we do business. As it were, we are competing with private equity, commercial banks and pension funds.

We need to remain relevant and to do that we need to be creative in the way we provide capital to people.

## What have you achieved from the automation of the exchange in 2015?

We have achieved efficiency and the ability of brokers to trade in the shortest time possible. The brokers are able to churn out more trades, and we now have more options. We have seen larger trades and more institutions have come into the market. We have attracted new custodians such as Bank of Africa and KCB, joining Stanbic, Housing Finance and Standard Chartered Bank. This means we will be able to attract more institutional and international investors who can trade bigger volumes.

The efficiency means that we can now redeploy our staff to the front end to promote products. Previously, trading hours were 10:00am to 12:00pm; now we are trading to 1:00pm and we intend to extend that to 3:00pm to attract international investors in different parts of the world. At 1:00pm, the Americans are not yet up when we close, however, at 3:00pm, they can participate.

Settlement times have also decreased from five days to three. We

HAVE TRADED ABOUT SH1.2 TRILLION. THE NUMBERS ARE GOOD BUT NOT GOOD ENOUGH

# driving economic growth

have a few brokers who can complete transactions and settle clients on the same day. We revised our trading rules to make them more flexible. Right now investors can put in a transaction order for one to 30 days; they can also set a target price and sell when the price is matched. We are able to send detailed statements to investors to see their trading history. We hope to see better results when investors can directly place their order.

## How will demutualisation improve the exchange?

It will enable us make arm's length decisions by separating ownership from management. Previously, the members (brokers) were also the owners of the exchange. Decisions would be made in their interests and not necessarily in the interests of the market. Now, the decisions are aimed at realising profit. The nature of the demutualised entity is that the brokers can only have up to three members on the board; the listed companies can have up to two members, and the board can have up to nine members. But at any point in time, two thirds of the board must be independent board members. We are set to appoint new board members in May or July. Right now Information Technology (IT) is a



**Dr Louis Kasekende the Bank of Uganda deputy governor, founding members of USE Leo Kibirango and Geoffrey Onegi Obel and Bwiso during the 20th anniversary celebrations at Kampala Serena Hotel**

big part of our business so we need someone to guide our IT strategy on the board. We also need someone to help with finance development and structuring deals. We also need someone who is good at human resources and working with people. We need someone who is good with compliance and legal. We also need

brokers who will give continuity to the business and engage us on what we can do for them. Working for profit opens up doors; previously we were working for the general good. Pursuing listings was not the major objective, but now we are set to focus on the primary section of the market. We need government to list

infrastructure bonds on the exchange. We are also looking at private equity to see how to fund a special purpose vehicle for investment in small and medium enterprises, so that when the SMEs grow, investors can use the USE as an exit plan. The new structure allows us to make value adding decisions much faster.

## When is the USE itself getting listed?

We hope to do so in three years' time because that is when the brokers are expected to sell down. We have authorised shares worth a billion shillings and issued shares of 420 million held by brokerage companies. Brokers are required to pay sh420m of that billion by the end of May to support improvement of internal processes and product development. When it comes to listings, a decision will have to be made on whether to get a strategic partner like the National Social Security Fund (NSSF) or to sell down. Nonetheless, it has been agreed that the exchange will list, if the value is right.

Right now, we are growing the value of the exchange. The assets of the exchange are worth about sh6.5b and the board wants us to double that within the next three years, which means we must be aggressive. Since our market is dominated by a few big players; it means we can move from a sh6.5b company to sh30b in a very short time if we get two or more big transactions. The large transactions will result into significant trading revenue, especially since we have fixed costs on IT and staff. We have started the process of corporate reorganisation to move

# USE's role not understood by many, says Bwiso

towards the primary market to target opportunities in the bustling mining sector.

We know there is a commodities exchange, but we are also a licensed exchange, so when you look at the future there is a lot of potential for running a commodities market. Our system can trade commodities such as minerals and maize. We have spoken to a few people and done consultation; if it is to happen, it will most probably be next year.

We are also in advanced stages of discussions to facilitate secondary trading of government bonds for the retail market. However, right now our focus is on the Real Estate Investment Trusts (REITS). We are doing research and development. We are also working on relationship management.

## What have been the challenges of the past 20 years?

The main challenge is that we have not been known for who we actually are; someone at the finance ministry said we were responsible for capital flight and yet we are actually responsible for bringing in money. If the Government clearly understood our role and the capital markets, they would have invested heavily in this sector to ably solve most of Uganda's business problems. Advocacy has been a challenge.

We know that there was a drive for about 80 privatised companies to list on the exchange but only seven came on board. Where did the rest go?



Some of the USE staff at the 20th anniversary celebration of USE at the Kampala Serena Hotel on Friday

Most of those that came on board were banks which are doing well. When other, non-listed banks were struggling, the listed ones continued to report profit and pay dividends. So the ability to raise quick and cheap capital on the exchange is very beneficial.

Look at the dfcu rights issue; the exchange provided them the ability to raise \$50m in six months not only from their current investors, but also from members of the public who were keen to get on board to enable them take up selected assets of Crane Bank.

Pooling resources is common in Uganda, especially when it comes to

social events such as when someone has a wedding. So why aren't Ugandans in business doing the same thing on the exchange by getting listed or buying shares?

The National Oil Company is looking at undertaking major projects; they could issue three to five per cent of their shares on the exchange or they could use a special purpose vehicle to raise part of the money they need on the exchange. I think there is also room for municipal bonds to enable municipalities to raise money for urgent and critical infrastructure projects. We should address the challenge of lack of awareness, especially by the right

**WE HAVE REORGANISED THE BUSINESS BY SEPARATING THE EXCHANGE FROM SCD, AMONG OTHER THINGS**

people. We need Ugandans to know about the exchange as the right vehicle to raise capital and move the economy forward. The other challenges include inflation and instability of macroeconomic statistics that are needed to attract investors to sectors that are booming, like manufacturing.

There is need for tax incentives to increase yields and cater for inflation, especially on long term assets. The exchange offers several solutions such as commercial paper and invoice discounting. There are a lot of things we are contemplating and discussing; in the next two to three years, this place will be a lot different.

## What is the effect of the pensions sector not being liberalised?

The pensions sector pools long-term resources. So as the capital markets, there is less money available if there are fewer people saving. If you have fewer savings than investments, then you become a consumption

based economy. Yes, there are some fears about liberalisation, but everything has risks. Regulators exist to create controls to reduce that risk. In Kenya, the pensions sector has grown significantly due to liberalisation; property markets and mortgage businesses have also grown. Competition is good while monopolies stifle growth.

At the very least, we need a big player to handle the pensions of government workers so that there is some competition at the point of investment, with the major player handling pensions for private sector employees. If everyone is investing in government bonds because rates are low, then collusion can occur to push rates even higher. What we need is more competition to drive down interest on government bonds; competition will also bring about efficiencies.

There is a lot of potential in this market; I think the capital markets are a sleeping giant. The first 20 years have been tough; we have learnt from them. Our brand has started getting out there and will only get stronger.

With time, we will be one of the biggest players in this economy. Our vision is to be the leading institution for sourcing of investments and capital. The difference between us and the banks is that we can structure investments. Once we get the right teams to structure investment assets at the exchange and at brokerage level, then we will click and truly take off.