# CAPITAL MARKETS DEVELOPMENT AND ECONOMIC GROWTH A CASE STUDY OF STANBIC BANK HEAD OFFICE KAMPALA UGANDA

BY

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A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF BUSINESS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF COMMERCE (EXTERNAL) OF KAMPALA INTERNATIONAL UNIVERSITY

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## Declaration

I **Ariko Richard**, a student of Kampala International University, hereby declare that this work is my original work and the best of my knowledge and that it has never been presented by any other person or institution for any academic award in and outside Kampala International University.

Ariko Richard 05th/08/2014

## Approval

This research report has been submitted for examination with my approval as a University Supervisor.

Signature.........................................

Kibuuka M

Date...05th/08/2011...................................

## Dedication

First to Almighty God who has guided me from birth up to now.

To my father, Mr. Enos Edeke and my mother, Norah Ikiding, who struggled to see me through education. I also dedicate this work to my children Ariku Walter, Esegu Emma, Ikiring Viola Naome and Acipa Felister. And also my brothers and sisters for their prayers and helping me in the course of my education.

## Acknowledgement

I feel indebted to many people for the help, advice and support in as far as my education is concerned. Special thanks go to my parents for their continued support.

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Lastly to all my friends, within or out of the university, and the entire community at large, who have, in one way or another helped me in my education.

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## Abstract/Executive Summary


This dissertation is entitled "Capital markets development and economic growth". It is presented as a result of a research that was carried out in Stanbic Bank, at the head office at Cham Towers along Kampala road in Kampala, Uganda. The study was carried out basing on three specific objectives, i.e.; to find out the role of capital markets development towards investment, to identify the role of capital markets towards capital availability and to find out the role of capital markets development towards the creation of jobs.

The research was in form of a correlational study, aimed at drawing the correlation between capital markets development and economic growth. The study population comprised of 124 people who, according to the records at the bank, is the total number of employees of the bank's head office, from which a study sample of 50 respondents was chosen, using simple random sampling technique. Questionnaires used in collecting both primary and secondary data. The collected data was analyzed using both qualitative and quantitative methods.

The findings showed that indeed capital markets development has a role to play in economic growth (investment, capital availability and job creation) in Uganda. The researcher drew the conclusion that Capital markets development plays a significant role in economic growth in the country. The researcher recommends that fiscal authorities should put more emphasis as well as draw more attention to monitor the progress of capital markets in order to harness its various roles towards economic growth.

## CHAPTER ONE

## INTRODUCTION TO THE STUDY

### 1.0 Introduction

This chapter gives a presentation of a brief overview or background to the study, statement of the problem, and purpose of the study, study objectives, research questions, scope and significance of this study.

### 1.1 Background to the study

Uganda's economic growth policy for the early 1990s was outlined in the Economic Recovery Program for 1989–94. State investment was lowered by 52% from the previous plan and the export sector was to be revived, particularly the nontraditional export sector (Bhide, 1993). The investment budget was divided equally among the transport and communications sector, social infrastructure, agriculture, and the industry and tourism sector. Inflation, which ran at 240% in 1987 and 42% in mid-1992, was under 5% for 1998. Nevertheless, a slowdown in privatization, low interest in foreign investment, and sustained but limited growth dimmed the prospects for economic development (Atje and Jovanovic, 1993).

The Capital Markets Authority was set up by the CMA Statute No.1 of March 1996 as an autonomous body under the Ministry of Finance, Planning and Economic Development. The CMA was established among others, to ensure investor protection, approve issue of securities, license market intermediaries, investor compensation fund and ensure fair and efficient markets (Chen, Lee and Wong, 2004). With the introduction of CMA, investors were able to raise capital through the sale of shares to the public. Capital Markets played a number of roles which included; raising long term capital, mobilizing and channeling of local savings into productive enterprise, setting minimum capital levels for market players as well as providing alternative long term financing (Chen, Lee and Wong, 2004).

Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period to another. Economic growth can be measured in nominal terms, which include inflation, or in real terms, which are adjusted for inflation. Economic growth is usually associated with technological changes. The growth of an economy is thought of not only as an increase in productive capacity but also as an improvement in the quality of life to the people of that economy (Atje and Jovanovic, 1993). Economic growth can be measured in aspects of the level of investment, availability and job creation.

Capital market are markets for securities (debt or equity), where business enterprises (companies) and governments can raise long-term funds. The capital market includes the stock market (equity securities) and the bond market (debt). Financial regulators, such as the Capital Markets Authority (CMA) in Uganda, oversee the capital markets in their designated jurisdictions to ensure that investors are protected against fraud, among other duties (Atje and Jovanovic, 1993).

The last decade has seen the Ugandan Capital market grow by leaps and bounds. It has witnessed a substantial increase in trading volumes at the Uganda Securities Exchange (USE) and an increase in both equity and debt listings (Demirguc-Kunt, 1994). The Uganda Securities Exchange was licensed to operate as an approved Stock Exchange in June 1997 by the Uganda Capital Markets Authority. Following the listing of its maiden instrument the East African Development Bank (EADB) bond in January 1998, Uganda Securities Exchange has over the past decade posted tremendous growth in terms of listings on the USE, growth in market capitalization, share holder growth and activity turnovers (Filer, Hanousek and Nauro, 1999).

Over the last 10 years the Uganda Securities Exchange has been very instrumental in supporting investment, it raised over Ushs 103 billion from Equities, over Ushs 90 billion from Corporate Bonds and over Ushs 1.7 trillion from Government bonds, thereby increasing capital availability in the economy and ultimately creating jobs. The number of share holders has also increased tremendously in the recent years in terms of participation at the Initial Public Offers (IPOs) and in the secondary market activity on the USE (Filer, Hanousek and Nauro, 1999).

Current USE market capitalization stands at Ushs 5.8 trillion registering an impressive growth in market capitalization over the years from an initial market capitalization of Ushs 2.3bn registered following the listing of its maiden equity listing Uganda Clays Limited. The listings on the USE have largely been a product of the Privatization program meaning the challenge for the coming years will be to attract listings from privately held and family owned businesses (Beck and Levine, 2003).

The credit crisis that hit the global market and the current escalation in fuel prices has put Uganda's economy under immense pressure. The economic growth rate which has been relatively stable at over 6% is being threatened with lesser capital availability, lower investment as well as job cuts, according to Aston Kajara, the state minister for Privatization. The constant population growth, coupled with the discovery of oil in the Albertine, increased education levels (producing 30,000 university graduates every year), requires robust investment in electricity, infrastructure and creation of employment opportunities (Aston Kajara, 2011).

The role of Capital markets is most crucial in such a scenario as Uganda struggles to raise domestic capital to finance investment projects. Over the past 7 years from 2004, the capital market has seen tremendous expansion, with listings on the USE of major companies like DFCU group, New Vision, East African Development Bank, Jubilee Holdings and Stanbic bank, raising over Ushs 1.7 trillion. This has helped to ensure capital availability to finance development projects, thus creating jobs.

Financial sector plays a crucial role in promoting economic growth. It has been observed that well functioning capital markets increases economic efficiency, investment and growth. In Uganda though, the current development challenge is to ensure that the level of investment, capital availability and job creation matches with the population and demand (Bahadur and Neupane, 2010). The vision 2025 development plan aims to achieve an annual economic growth of 10% with an investment rate of 30% to be financed mainly from mobilization of domestic resources. Focus is now on the capital market to facilitate mobilization of adequate resources and allocation of these resources efficiently to achieve growth objectives. This study therefore aims at answering the question on whether capital market development facilitates economic growth. This is analyzed by studying the role of the capital market in financing investment, capital availability and job creation.

## 1.2 Statement of the Problem

Uganda's economic growth forecast is currently being threatened by forces from within such as population increase, higher demand for employment, and infrastructural expansion as well as forces outside national jurisdiction such as the high global food and fuel prices. This is evident in the level of job creation which is far below capacity, the dilapidated infrastructures and the inability of the economy to fully sustain itself locally. This has resulted into increased poverty and of recent, social tensions mainly over unemployment and high fuel and commodity prices.

Government has identified the various priority areas such as infrastructural investment and creating of employment opportunities, all of which require reliable and long-term capital availability to finance them. The success of the capital market is now being looked at as a lasting solution to the lack of domestic development capital as the country struggles to become self sustaining. Therefore it's important to carry out an assessment of the role of capital markets in promoting economic growth, through promoting investment, capital availability and job creation. That is what compelled the researcher to carry out this study.

### 1.3 Purpose of the study

The purpose of this study was to find out the role played by capital markets in the growth of the economy.

### 1.4 General objective

The general objective of the study was to determine the ways through which the development of capital markets in the country impact or influence economic growth.

#### 1.4.1 Specific objectives

The study was aimed at achieving the following specific objectives;

i. To find out the role of capital markets development towards investment
ii. To identify the role of capital markets towards capital availability.
iii. To find out the role of capital markets development towards the creation of jobs.

### 1.5 Research Questions

The study attempted to find answers to the following questions;

i. What is the role of capital markets development towards investment?
ii. What is the role of capital markets towards capital availability?
iii. What is the role of capital markets development towards job creation?

### 1.6 Null Hypothesis

Capital markets development has no role to play towards economic development in Uganda.

### 1.7 Scope of the Study

The study was carried out in Stanbic Bank, head office at Cham towers (former Uganda Commercial Bank building) on Kampala road in Kampala. This area was chosen because of several reasons; first it's near the researcher's residence so the costs of transport would be minimal. And secondly, Stanbic Bank is one of the financial institutions listed on the Uganda Securities Exchange so the people working there were well suited to provide important information on capital markets.

The study focused on the role of capital markets in economic growth and it covered the performance of Stanbic Bank on the stock market in the past three years. The study was carried out in one month.

## 1.8 Significance of the Study

The findings of the study will be useful or important in many different ways and to many different persons or groups of people;

- The findings of the study will help experts in drawing the interrelationship between the development of capital markets and economic growth in the country
- The study will help policy makers in identifying the challenges encountered in trying to ensure efficiency of capital markets in the country.
- The findings of the study will help in drawing remedies to the challenges faced by capital markets in their operations.
- The study will bring in new knowledge on how to understand the importance or advantages of capital markets in an economy.

# CHAPTER TWO

# LITERATURE REVIEW

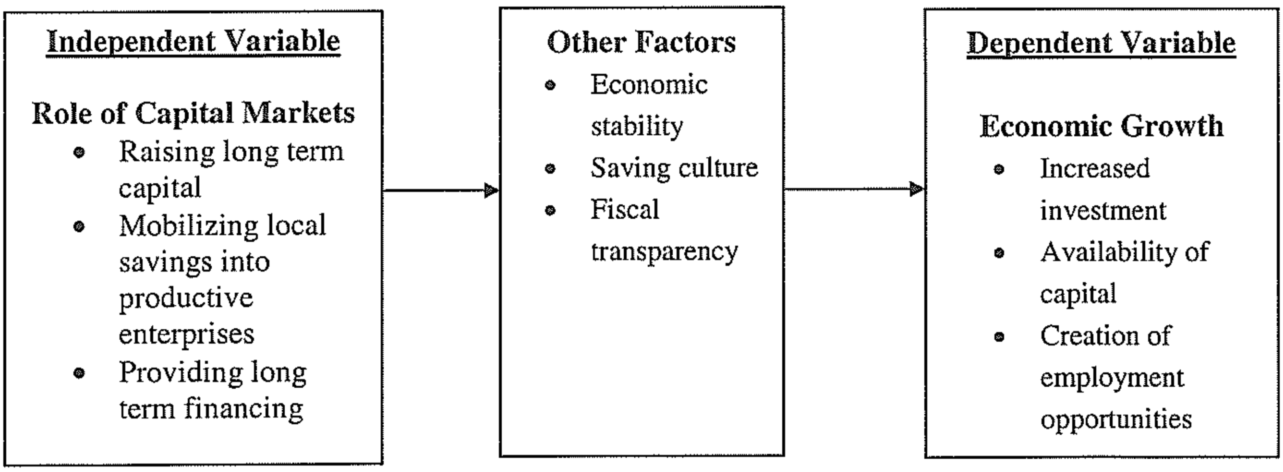
## 2.0 Introduction

This chapter studies and presents the existing literature about the role of capital markets in economic growth. It was based on the assessment of various scholars and researchers who have studied this problem before and analyze the activities, achievements and obstacles or challenges of capital markets and their effect on the growth of the economy.

## 2.1 Conceptual framework

The study was carried out basing on the interrelations between the variables in the research problem. It explored the connection between the independent, dependent and the intervening variables.

**Fig 1: Conceptual framework**




In this study, the independent variable, which is the role of capital markets (Raising long term capital, mobilizing local savings into productive enterprises and providing long term financing) works hand in hand with other intervening variables such as the economic stability, the saving culture, fiscal transparency and others, to determine and influence the dependent variable, which in this case is the economic growth. This means that capital markets development in itself cannot effectively have any influence on economic growth without other supporting factors, which is the intervening variable.

## 2.2 The role of capital markets development in economic growth

Capital markets provide the lifeblood for the economy. Companies turn to them to raise funds needed to finance the building of factories, office buildings, airplanes, trains, ships, telephone lines, and other assets; to conduct research and development; and to support a host of other essential corporate activities. Much of the money comes from such major institutions as pension funds, insurance companies, banks , foundations, and colleges and universities (Filer, Hanousek and Nauro, 1999). Very few investors would be willing to buy shares in a company unless they knew they could sell them later if they needed the funds for some other purpose. The stock market and other capital markets allow investors to buy and sell stocks continuously.

The markets are a source of funding for investors. When stocks or other financial assets rise in value, investors become wealthier; often they spend some of this additional wealth, bolstering sales and promoting economic growth. Moreover, because investors buy and sell shares daily on the basis of their expectations for how profitable companies will be in the future, stock prices provide instant feedback to corporate executives about how investors judge their performance (Chen, Lee and Wong, 2004).

The capital market is a crucial component of a good working financial system and a critical vehicle for a nation's development. The development of a strong capital market is imperative because theoretical and empirical literature have shown that there is a strong, positive correlation between capital market development and economic growth. Capital markets development can accelerate economic growth by encouraging investment, ensuring capital availability and improving people's living standards among others.

### 2.2.1 The role of capital markets development towards investment

Stock markets can lower the cost of mobilizing savings and thereby facilitate investment in the most productive technologies. They link those who have the resources to invest with those who could use this capital to turn new ideas into businesses, generating jobs, improving living standards and contributing to the economy. The impact on economic activity also occurs through the creation of liquidity. A well functioning, liquid and broad capital market is crucial to the operation of any emerging economy. (Vector, 2005).

Capital markets act as a basis for major financial reforms, including reforms in the capital market. Weise and Cho, (1986) advocated for financial liberalization, which they argued contributes to increased possibilities of risk diversification by financial institutions, particularly if it involves the opening up of domestic markets to foreign competition. This helps reduce the cost of capital and improve the efficiency of financial intermediaries in a country thus enhancing returns to investment. Capital markets facilitate price discovery, price has information content and transmits signals to various stock holders in the market which facilitates decision making thus allowing allocation of resources to their best use.

Second, capital markets promote efficient governance and control mechanisms by exerting external pressure and discipline in its operations. The market serves as a signal to managerial performance (Chen, Lee and Wong, 2004). In an environment of uncertainty, contractual parties cannot easily observe or control one another and enforcement mechanisms are costly.

Capital markets provide price-based monitoring mechanisms for suboptimal behavior by management and hence put pressure on management to take corrective action. This is evident in the facilitation of takeovers by stock markets through price information, in which case, inefficient management is replaced by supposedly efficient management through accumulation of shares in the open market by the new owners. [Stiglitz & Weiss, (1981); and Cho, (1986)].

There is a general consensus that capital market development enhances investment efficiency. In some studies, the authors examined the impact of financial sector development on the quality of investment and they established that the main channel through which capital market development affects growth is through investment productivity (Lynch, 1995; Caporale, Howells and Msoliman, 2005)

Internal capital is a major source of funds for financing corporate investments. This reliance on self-generated cash as a source of investment funds has prompted researchers to investigate the relationship between firms' investment decisions and internal resources. In a world where capital markets are perfect and all firms have free access to external sources of financing, investment decisions would be based solely on expected future profitability and, thus, not be affected by the availability of internally generated funds. In the real world, however, capital market imperfections exist, making internal funds less costly and therefore more attractive to investors than external funds. (Caporale et al, 2004)

Capital markets carry out the desirable economic function of directing capital to productive uses. The savers invest their money in capital markets like stocks and bonds. The borrowers borrow the savers' investments that have been entrusted to the capital markets. When savers make investments, they convert cash or savings into risky assets with the hopes of receiving enhanced benefits in the future.

Since all investments are risky, the only reason a saver would put cash at risk is if returns on the investment are greater than returns on holding risk-free assets. Buying stocks and bonds and investing in real estate are common examples (Filer, Hanousek and Nauro, 1999). Capital markets promote economic efficiency. Any number of companies might have great business ideas but no funds to carry them out. By shifting the funds from investors to the companies through the capital markets, the funds are employed to their maximum extent.

### 2.2.2 The role of capital markets development towards capital availability

Capital markets promote private sector development. Access to and ease in movement of financial resources fundamentally influences the prospects for private sector growth in developing country economies. The extent that existing firms can borrow and grow, the ability of emerging firms to act entrepreneurially, their willingness to invest in assets, and the ability to allocate their assets freely—all factor into economic growth (Chen, Lee and Wong, 2004). An examination of the levels of capital market development and economic growth in Asia with those in sub-

Saharan Africa shows that India and China continue to add several hundred companies to their stock exchanges annually. The immediate benefit of the flourishing capital market activity in Asia is reflected in the sizeable increase in the momentum of private sector development.

Capital markets increase liquidity, which is linked to economic growth. An increase in the number of firms and investors participating in exchanges generates liquidity, or the volume of active trading that occurs. Liquidity has a proven relationship with economic growth; recent studies have found that Capital Market and Financial Sector Development in Sub-Saharan Africa with liquid markets experience faster rates of capital accumulation and greater productivity gains.

As liquidity increases, firms gain increased assurance that they will be able to exit from longer-term investments. They therefore become more willing to make the permanent investments critical to development. Simultaneously, local consumers are more willing to mobilize domestic savings. This process allows for a market-based system of allocating financial resources, whereby more resources are more efficiently distributed to the more productive and innovative firms (Bahadur and Neupane, 2006).

Capital markets help mobilize local savings and makes resources available for local decision making. Capital market development encompasses more than just foreign inflows to emerging markets. Equally important is the cultivation of local investor interest as a means of increasing the available investment sources within an economy. An increase in domestic investor interest originates from the availability of profitable options for saving within the local economy; in other words, the existence of incentives to keep money in float domestically (Caporale, Howells and soliman, 2004).

Formal and credible savings options, which include such instruments as pension plans, insurance policies, and mortgage markets, are key to generating necessary sources of financing within an economy and to allow more resources to be mobilized and allocated to various investment needs—thereby serving to drive the growth process. A central benefit of this activity is the increase in local decision making and the increase in input from local stakeholders.

Capital markets enhance bank competition and develop a greater diversity of financial institutions. At the heart of local capital market development is the mobilization of domestic savings for a broader array of institutions with varied investment objectives. In comparison to other developing regions, sub-Saharan Africa does not mobilize its domestic capital effectively. The lack of long-term local currency savings instruments is a barrier to local investment of local capital.

For example, in South Africa, only half of the adult population has a bank account. The absence of adequate competition is reflected in the large gap between deposit rates for savers, which tend to be very low, and interest rates for borrowers, which tend to be very high (Chen, Lee and Wong, 2004). Cultivating channels for firms to issue various debt instruments and raise equity, while simultaneously providing more long-term options for saving and asset management for investors, will benefit enlarging economies by increasing market efficiency.

Capital markets increase remittances and facilitate their use. Establishing mechanisms for facilitating cost-effective transfers and savings of funds received through remittances, a rapidly emerging source of private capital in developing countries, can also contribute to economic growth. In 2002, sub-Saharan Africa's share of the aggregate remittance flows to developing countries was 5 percent of $80 billion, or $4 billion (Caporale, Howells and soliman, 2004). This amount may actually be understated, but is still quite significant in the context of sub-Saharan Africa's current foreign direct investment (FDI) level of $6 billion and international portfolio capital flows of $893 million.

Capital markets lead to improved corporate governance. Capital market development necessitates the creation of a legal and regulatory framework incorporating increased transparency and information dissemination. These monitoring systems heighten corporate governance, improve transparency, and boost investor confidence. Industry-level data from various studies have shown a positive relationship between market-based governance and improvements in industry efficiency. Industry efficiency is important because it promotes economic growth (Bahadur and Neupane, 2006).

Capital markets reward sound economic policies and create tools for African countries to conduct monetary policy. The cost of sovereign borrowing is directly related to the economic conditions and policies in a country. A government that implements good economic policies is rewarded by lower borrowing costs on its sovereign bond issues, thus creating a market-based versus donor driven incentive to strengthen financial sectors. Furthermore, debt markets provide a tool for central banks to manage the money supply and control inflation (Chen, Lee and Wong, 2004).

### 2.2.3 The role of capital markets development towards Job creation

The capital market is important to a country's economic and social system. It plays the crucial roles of capital raising for both public and private sectors, promoting balance and stability in the financial system, decreasing dependency on the banking sector, driving the economy forward and creating jobs, as well as being an alternative method for savings (Beck and Levine, 2003). A strong capital market will lessen the impact of economic fluctuations which can be compounded by the fast-flowing nature of capital, thereby leading to better standards of living.

Both businesses and consumers benefit from a highly liquid, well-regulated, and transparent capital markets system. Capital is the fuel that allows businesses to grow and create jobs. Competitive capital markets are fundamental to growing the economy and creating jobs (Chen, Lee and Wong, 2004). All sources are important and necessary for the capital markets to function. The government needs to an all-out strategy that advocates on behalf of local business owners so that they can have access to the capital they need to fulfill their dreams and drive the economy forward.

Limitations in the capacity of capital markets is a serious impediment to achieving growth rates that will support a substantial rise in employment and education and training opportunities for the population as a whole. Improvements in governance, in the capacity of regulators and market participants, and in the ability of insurance companies to invest premium income to support economic growth will ultimately help to increase the level of investment, thus creating more jobs (Chen, Lee and Wong, 2004).

## CHAPTER THREE

## METHODOLOGY

### 3.0 Introduction

This chapter deals with the research methodology to the study; the research design, the study population, sampling techniques, the sample size, the study instruments, sources of data, data analysis methods, data process methods respectively.

### 3.1 Research Designs

The research design was correlational in nature. Since it would be very hard, costly, and time consuming to study the whole country, the study of one branch of Stanbic Bank, particularly at their head office at Cham towers was intended to provide information that could be treated as representative in the entire country. The study was correlational in that it was interested in testing a relationship between Capital markets development and economic growth.

### 3.2 Research Population

The target population in this study was comprised of officials from Stanbic Bank at the head office. According to the staff structure manuals in the corporate affairs departments of Stanbic Bank, there are 124 people who make up the population of this study and it's from these that a sample was drawn.

### 3.3 Sample size

Due to the time and financial limitations, the researcher was not able to get information from all the relevant people in the field of study.

Therefore a sample was drawn to represent the entire population. This sample consisted of 50 respondents from Stanbic Bank at their head office at Cham towers.

### 3.4 Sampling Procedure

A total of 50 respondents was used as a sample for the study. They included stock brokers, accountants, managers, financial markets advisors and other respondents. Simple random sampling method was used in choosing the study sample. In this method, lists of employees from the relevant departments were obtained and respondents were selected randomly, in a way that every employee had an equal chance of being chosen. This was important in preventing bias choosing the sample.

### 3.5 Methods/Tools of Data Collection

The main method of data collection was questionnaires. Structured questionnaires for qualitative research and interviews of key informants will be employed.

**Questionnaire;** This is a printed form with questions, given to a group of people to fill, with the aim of collecting data. The questions relate to the problem being studied. Printed forms of questions were distributed to specified respondents. Primary data was collected from the field by use of these self administered questionnaires.

**Interviews;** This is a one to one method of data collection where the researcher asks questions directly to participants. In open interviews, the researcher starts with a single broad question which invites the participants to be as elaborative as possible.

### 3.6 Data control and Measurement

The data obtained was tested for authenticity by the researcher. This was done by carrying out additional search and applying other methods like observation and literature check. The information got from all these sources was put together and measured to determine its correctness and accuracy to ensure consistency of the data obtained.

### 3.7 Data Processing and Analysis

In analyzing the data, the frequency tables and percentages, as well as the Pearson's product Moment Correlation were used in interpreting and presenting the information.

### 3.8 Ethical procedures of Data analysis

The use of questionnaires was applied by the researcher to the various respondents. The same questions were informally given to different people and the answers from these people were useful in minimizing chances of biasness. With the use of guiding check lists the researcher recorded the correct impression that was provided by the first hand information.

For purposes of confidence building among the respondents, the researcher explained the reasons for carrying out the study and this was to identify the role of capital markets development in economic growth. The researcher also guaranteed anonymity for respondents who wish to be protected from exposure.

### 3.9 Study Limitations

The study was limited by financial constraints and the time scale. It was not possible for the researcher to cover all the relevant people in the field, thus the need to formulate a sample which would be used to represent the entire area of study.

Accessibility to confidential information which was necessary was not easy. Therefore the researcher tried to assure the respondent that the information obtained would used for academic purposes only and would be treated with a high level of confidentiality.

# CHAPTER FOUR

# DATA PRESENTATION, INTERPRETATION AND ANALYSIS

## 4.0 Introduction

This chapter is a presentation, interpretation and discussion of the data collected from the field. The study was carried out based on three specific objectives, i.e.; to find out the role of capital markets development towards investment, to identify the role of capital markets towards capital availability and to find out the role of capital markets development towards the creation of jobs. The results are presented in tables and in form of frequency counts and percentages.

The present study intended to ascertain the relative importance of certain factors as they relate to capital markets development and economic growth in Uganda. Drawing on the various areas of research including among other studies provided a framework the current study.

## 4.1 Demographic profiles of respondents

This presents the categorization of respondents on aspects such as age, sex or gender, in their respective frequencies and percentages. The study used a sample of 50 respondents from Stanbic bank head office at Cham Towers. Table 4.1 below shows the background information of the respondents;

**Table 4.1: Demographic information of the respondents**

| Background Information | Category | Frequency | Percentage |
|---|---|---|---|
| Gender | Male | 26 | 52 |
| | Female | 24 | 48 |
| | **Total** | **50** | **100** |
| Age | 20 – 24 | 11 | 22 |
| | 25 – 29 | 9 | 18 |
| | 30 – 34 | 10 | 20 |
| | 35 – 39 | 12 | 24 |
| | 40 and above | 8 | 16 |
| | **Total** | **50** | **100** |
| Academic level | Masters' Degree | 21 | 42 |
| | Bachelor's Degree | 26 | 52 |
| | Diploma | 2 | 4 |
| | Certificate | 1 | 2 |
| | **Total** | **50** | **100** |
| Position in Office | Directors | 3 | 6 |
| | Supervisors | 10 | 20 |
| | Office assistants | 16 | 32 |
| | Others | 21 | 42 |
| | **Total** | **50** | **100** |
| Years of service | Below 5 years | 28 | 56 |
| | 5 – 10 years | 15 | 30 |
| | Over 10 years | 7 | 14 |
| | **Total** | **50** | **100** |

**Source:** *Primary Data, 2011*

The information in Table 4.1 above shows that there were 26 male respondents (representing 52%) and 24 female respondents (representing

48%). From this information, the researcher drew an implication that there is a fairly gender balanced staff recruitment policy at Stanbic bank.

The information in Table 4.1 above also show the age categorization of respondents was such that 11 respondents (22%) were aged between 20 – 24 years, 9 respondents were between 25 – 29 years, representing 18%, 10 respondents (representing 20%) were between 30 – 34 years old, 12 respondents 9representing 24%) were aged between 35 – 39, and the remaining 8 (16%) of the respondents were aged 40 years and above. This implied that all the people working at Stanbic bank are of all age groups and that all of them are of legally mature working age.

Further investigations were made to evaluate academic levels of respondents and findings revealed that 21 (42%) had attained Master's Degree level, 26 (52%) had attained Bachelor's Degree level, 2 (4%) had attained Diploma level and 1 respondent (representing 2%) had attained Certificate level. This implies that the employees at Stanbic Bank are academically qualified and have the capacity to perform their duties diligently.

Concerning the positions that respondents hold in office, the findings show that 3 respondents (representing 6%) were directors, 10 (representing 20%) were supervisors, 16 respondents (representing 32%) were office assistants and the rest (21 respondents) or (42%) including stock brokers, accountants, managers, financial markets advisors were categorized as others.

The study also investigated the periods that respondents had been working in the bank, and this indicated that 28 respondents (representing 56%) had worked there for less than 5 years, 15 respondents (30%) had been there between 5 – 10 years and 7 respondents (representing 14%) had worked in the bank for over 10 years. This implied that the recruitment policy at Stanbic bank offers job security over long term periods.

### 4.2 Capital markets development

Respondents were asked to describe the development process as well as the progression levels of capital markets in Uganda, and their responses are presented in Table 4.2 below;

| **Capital Markets Development process** | | |
|---|---|---|
| Very slow | Count | 2 |
| | Percentage | 4% |
| Slow | Count | 8 |
| | Percentage | 16% |
| Moderate | Count | 17 |
| | Percentage | 34% |
| Fast | Count | 13 |
| | Percentage | 26% |
| Very fast | Count | 10 |
| | Percentage | 20% |
| | **Count** | **50** |
| **Total** | **Percentage** | **100** |
| **Progression stage of Uganda's Capital Markets** | | |
| Infant stage | Count | 11 |
| | Percentage | 22% |
| Growth stage | Count | 34 |
| | Percentage | 68% |

| | | |
|---|---|---|
| Maturity stage | Count | 5 |
| | Percentage | 10% |
| | **Count** | **50** |
| **Total** | **Percentage** | **100** |

From the findings indicated in Table 4.2 above, 2 respondents (representing 4%) said that the process of capital markets development was very slow, 8 respondents (representing 16%) said that the process of capital markets development was slow, 17 respondents (representing 34%) said that the process of capital markets development was moderate. However, other 13 respondents (representing 26%) said that the process of capital markets development was fast and 10 respondents (representing 20%) said that the process of capital markets development was very slow.

On the progression level of the capital markets in Uganda, 11 respondents (representing 22%) saying that the capital market in Uganda is in its infancy, 34 (68%) of the respondents said that it was growth stage while 5 respondents (representing 10%) said the capital markets were in at a mature or adult stage.

### 4.3 Role of Stanbic bank

The respondents were also asked to rate the role played by Stanbic bank towards raising long-term capital, mobilizing local savings, providing long-term finance, providing short-term loans, providing medium-term loans, buying and selling treasury bills and providing overdrafts. The information from their responses is presented in Table 4.3 below;

| ɔle played by Stanbic bank ı; | | Very high | High | Mode -rate | Low | Very low | Total | Mean |
|---|---|---|---|---|---|---|---|---|
| ıising long-term .pital | Count | 34 | 14 | 2 | 0 | 0 | 50 | 2.96 |
| | % | 68 | 28 | 4 | 0 | 0 | 100 | |
| obilizing local savings | Count | 28 | 11 | 10 | 1 | 0 | 50 | 2.92 |
| | % | 56 | 22 | 20 | 2 | 0 | 100 | |
| ·oviding long-term ıance | Count | 22 | 10 | 14 | 3 | 1 | 50 | 3.22 |
| | % | 44 | 20 | 28 | 6 | 2 | 100 | |
| ·oviding medium-term ans | Count | 30 | 18 | 2 | 0 | 0 | 50 | 3.24 |
| | % | 60 | 36 | 4 | 0 | 0 | 100 | |
| ·oviding short-term ans | Count | 36 | 14 | 0 | 0 | 0 | 50 | 2.88 |
| | % | 72 | 28 | 0 | 0 | 0 | 100 | |
| ıying and selling ɛasury bills | Count | 32 | 18 | 0 | 0 | 0 | 50 | 3.26 |
| | % | 64 | 36 | 0 | 0 | 0 | 100 | |
| ·oviding overdrafts | Count | 29 | 17 | 4 | 0 | 0 | 50 | 3.38 |
| | % | 58 | 34 | 8 | 0 | 0 | 100 | |

From the findings, Stanbic bank is also credited for its role in providing overdrafts, and on this, 29 respondents (58%) said they rated the bank very highly, 17 respondents (34%) rated it highly and 4 respondents rated it moderately. With a mean of 3.38, the above figures give an implication that respondents have confidence in the bank for providing overdrafts.

The findings of the study also indicate that 32 respondents (64%) rated the role of Stanbic bank in the buying and selling of treasury bills as very high and 18 (36%) of the respondents rated it as high. With a mean of 3.26, this also implies that Stanbic bank is regarded highly in as far as the buying and selling of treasury bills is concerned.

The findings of the study further show that the role of Stanbic bank in providing medium-term loans is rated as very high by 30 respondents, which represents (60%). Also, 18 respondents (representing 36%) rated it as high. With a mean of 3.24, this implies that Stanbic bank is widely seen as being able to play an important role of providing medium-term loans.

The findings also show that the role of Stanbic bank in providing long-term finance is rated as very high by 22 respondents, which represents (44%). Also, 10 respondents (representing 20%) rated it as high, 14 respondents (28%) rated it as moderate, 3 respondents (6%) rated it as low and 1 respondent (2%) rated it as very low. With a mean of 3.22, these findings imply that Stanbic bank is recognized for providing long-term finance.

The findings of the study indicate that 34 respondents (representing 68%) rated the role of the bank as very high, 14 respondents (representing 28%) rated it as high and 2 respondents (representing 4%) rated it as moderate. With a mean of 2.96, this therefore implies that respondents highly rate Stanbic bank's role in as far as raising long-term capital is concerned.

On mobilization of local savings, the findings of the study show that 28 respondents (representing 56%) rated the role of the bank as very high, 11 respondents (representing 22%) rated it as high, 10 respondents (representing 20%) rated it as moderate, and 1 respondent (2%) rated it as low. With a mean of 2.92, the findings indicate that the role of Stanbic bank is rated highly in mobilizing local savings.

Also, the findings indicate that Stanbic bank play an important role in providing short-term loans, and on this, 36 respondents, which represents (72%) rated it as very high and 14 respondents (representing 28%) rated the role of Stanbic bank as high. With a mean of 2.88 , these findings indicate that the Stanbic bank is a reliable provider of short-term loans.

### 4.4 Role of Capital markets development towards investment

The first objective in this study was to find out the role of capital markets development towards investment. The researcher stated a null hypothesis that Capital markets development has no role to play towards economic growth (investment, capital availability and job creation) in Uganda. To test this hypothesis, the Pearson's linear correlation coefficient was used and the results are shown in table 4.5 below;

**Table 4.5: Correlation on the role of Capital markets development towards Investment**

| | | Role played by Stanbic bank | Investment |
|---|---|---|---|
| Role played by Stanbic bank | **Pearson Correlation** | 1 | .552** |
| | Sig. (2-tailed) | | .000 |
| | N | 59 | 50 |
| Investment | **Pearson Correlation** | .552** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 50 | 50 |

Results in table 4.5 indicate that Capital markets development plays a significant role towards investment in Uganda (r=0.552, sig. =0.000). Basing on the above figures, the null hypothesis is rejected and a conclusion is made that Capital markets development plays a significant role in economic growth (Investment) in Uganda.

### 4.5 Role of Stanbic bank towards capital availability

The second objective in this study was to find out the role of Capital markets development on capital availability in Uganda. The researcher stated a null hypothesis that Capital markets development has no role to play towards economic growth (investment, capital availability and job creation) in Uganda. To test this hypothesis, the Pearson's linear correlation coefficient was used and the results are shown in table 4.6 below;

**Table 4.6: Correlation on the role of Capital markets development towards Capital availability**

| | | Role played by Stanbic bank | Availability of capital |
|---|---|---|---|
| Role played by Stanbic bank | **Pearson Correlation** | 1 | .785** |
| | Sig. (2-tailed) | | .000 |
| | N | 59 | 50 |
| Availability of capital | **Pearson Correlation** | .785** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 50 | 50 |

Results in table 4.6 indicate that Capital markets development plays a significant role towards economic growth (capital availability) in Uganda (r=-0.785, sig. =0.000). Basing on the above figures, the null hypothesis is rejected and a conclusion is made that Capital markets development has a highly significant role to play towards economic growth in Uganda.

## 4.6 Role of Capital markets development towards Job creation

The third objective in this study was to find out the role of Capital markets development towards job creation in Uganda. The researcher stated a null hypothesis that Capital markets development has no role to play towards economic growth (investment, capital availability and job creation) in Uganda. To test this hypothesis, the Pearson's linear correlation coefficient was used and the results are shown in table 4.7 below;

**Table 4.7 Correlations on the role of Capital markets development towards Job creation**

| | | Role played by Stanbic bank | Job Creation |
|---|---|---|---|
| Role played by Stanbic bank | **Pearson Correlation** | 1 | .100 |
| | Sig. (2-tailed) | | .491 |
| | N | 59 | 50 |
| Job Creation | **Pearson Correlation** | .100 | 1 |
| | Sig. (2-tailed) | .491 | |
| | N | 50 | 50 |

Results in table 4.7 indicate that Capital markets development plays a significant role towards Job creation in Uganda (r=0.100, sig. =0.491). So basing on that above figures, the null hypothesis is rejected and a conclusion is made that Capital markets development has a significant role to play towards economic growth (Job creation) in Uganda.

# CHAPTER FIVE

# SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

## 5.0 Introduction

Given the findings documented in the previous chapter, the initiative in this chapter is to develop analytical conclusions and advance policy recommendations necessary for various stakeholders, researchers and academicians who may in future base on this study to adopt mechanisms against the findings exposed in this research. Therefore, the chapter begins by making a summary of the findings of the study, then drawing logical conclusions based on empirical evidence already pointed out and thereafter advances the recommendations.

## 5.1 Summary of findings

The study intended to assess the role of Capital markets development towards economic growth in Stanbic bank at the head office on Cham Towers, along Kampala road in Kampala. It was based on three objectives i.e. to find out the role of capital markets development towards investment, to identify the role of capital markets towards capital availability and to find out the role of capital markets development towards the creation of jobs.

Analysis using frequency counts and percentages revealed that in a study sample of 50 respondents, 26 (52%) were male and 24 (48%) female. The age analysis revealed that respondents aged between 20 – 24 years were 11 (22%), between 25 – 29 years were 9 (18%), those between 30 – 34 years were 10 (20%), between 35 – 39 were 12 (24%) and those aged 40 years and above were 5 (16%). Concerning the academic levels, the analysis revealed that 21 respondents (42%) had acquired Masters' degrees, 26 (52%) had Bachelors' degrees, 2 (4%) had acquired Diplomas and 1 respondent (2%) had acquired a certificate. On the categorization by their respective positions in office, the analysis also revealed that 3 respondents (6%) were directors, 10 (20%) were supervisors, 16 (32%) were office assistants, while those categorized as others were 21 (42%). Concerning the number of years of service, the analysis revealed that 28 respondents (56%) had worked in Stanbic bank for less than 5 years, 15 respondents (30%) had worked there for 5 -10 years and 7 respondents (14%) had worked there for more than ten years.

On the development process of Capital markets in Uganda, the analysis revealed that 2 respondents (4%) said that the development process was on a very slow pace, 8 respondents (16%) said that the development process was slow, 17 (34%) said that the development process was at a moderate pace, 13 respondents (26%) said that the development process was fast and 10 respondents (20%) said the development process was at a very fast pace. On the progression stage of Uganda's Capital market, 11 respondents (22%) said it was in infancy, 34 respondents (68%) said it was at the growth stage, while 5 respondents (10%) said that it was in maturity stage.

The roles played by Stanbic bank were also analyzed and on these, the analysis revealed that 34 respondents (68%) rated the role of Stanbic bank' very highly in raising long-term capital, 14 respondents (26%) rated it highly and 2 respondents (4%) rated it as moderate, giving a mean index of 2.96. Also, on mobilizing local savings, 28 respondents (56%) rated the bank very highly, 11 (22%) rated it highly, 10 respondents (20%) rated it as moderate and 1 respondent (2%) rated it as low, giving a mean index of 2.92. On providing long-term finance, 22 respondents (44%) rated the bank very highly, 10 (20%) rated it highly, 14 respondents (28%) rated it moderately, 3 respondents (6%) rated it lowly and 1 respondent (2%) rated it as very low, giving a mean index of 3.22.

Also, on providing medium-term loans, 30 respondents 960%) rated the role of Stanbic bank very highly, 18 respondents (36%) rated it highly and 2 respondents (4%) rated it moderately, giving a mean index of 3.24. In providing short-term loans, 36 (72%) of the respondents rated Stanbic bank very highly and 14 (28%) rated it highly, giving a mean index of 2.88. On buying and selling treasury bills, 32 (64%) respondents rated the role of Stanbic bank very highly, giving a mean index of 3.26. On providing overdrafts, 29 respondents (58%) rated the role of Stanbic bank very highly, 17 (34%) respondents rated it highly and 4 respondents (8%) rated it moderately, giving a mean index of 3.38.

Analysis using Pearson's linear correlation Coefficient showed that Capital markets development plays a positive role towards investment and this is indicated by a positive r-value (0.552). It also showed that Capital markets development plays a positive role towards capital availability, indicated by a positive r-value (0.785). And also a positive role towards job creation, indicated by a positive r-value (0.100).

## 5.2 Conclusions

Based on the above findings, the following conclusions are made;

There were more male respondents (26 or 52%) as compared to their female counterparts (24 or 48%) in Stanbic bank at the head office. The borrowers are aged 18 years and above, the legal adult working age in Uganda. The academic levels ranged from certificate holders to Masters' degree holders, showing that various academic groups are involved. On the development process of Capital markets in Uganda, respondents' responses led the researcher to conclude that there was a moderate growth pace, and that capital markets development in Uganda was in the growth stage.

On the roles played by Stanbic bank, provision of overdrafts ranked highest with a mean of 3.38, second was buying and selling treasury bills with a mean of 3.26, third was providing medium-term loans with a mean of 3.24, fourth was providing long-term finance with a mean of 3.22, fifth was raising long-term capital with a mean of 2.96, then the mobilization of local savings with a mean of 2.92 and last was the provision of short-term loans with a mean of 2.88.

The researcher also concluded that Stanbic bank plays positive roles towards investment with ($r=0.552$, sig.=0.000), capital availability with ($r=0.785$, sig.=0.000) and job creation with ($r=0.100$, sig. =0.491.

**5.3 Recommendations**

Based on the various findings uncovered in the study and the conclusions reached, the researcher made various recommendations, which he believes that if properly considered, they can guide all stakeholders in better understanding of the aspects of Capital markets development and its role on economic growth in the whole country in general;

The fiscal authorities in the country should put more attention to the progress of capital markets in Uganda since its seen as a source of long-tern capital finance, long-term loans, medium-term loans, overdrafts and the buying and selling of treasury bills. Given the fact that Uganda faces a challenge of capital financing, capital markets should be fully embraced since it's in position to cover the capital gap.

Emphasis should be put on monitoring the progress of growth of Capital markets in Uganda since all stand to benefit from its continued growth, because it will ensure investment, capital availability and job creation.

## 5.4 Areas for further research

In the view of limited scope and limitations of the study, the researcher found out that there are other areas that need more attention. Further research should also be directed towards how the Capital markets development encourages savings in the country.

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## APPENDICES

### APPENDIX I

**Questionnaires for selected officials of Stanbic Bank at the head office at Cham towers**

Dear Respondent

This questionnaire is designed to seek information from you on capital markets development and economic growth. It is carried as a partial fulfillment of the requirements for the award of a Bachelor of Commerce of Kampala International University. Your contribution, opinions and experience will be highly appreciated.

Thanks for your cooperation.

**A. <u>BACKGROUND</u>**

1. Gender

( ) Male

( ) Female

2. Age in years

( ) 20 – 24

( ) 25 – 29

( ) 30 – 34

( ) 35 – 39

( ) 40 - above

3. Academic level

( ) Masters degree

( ) Bachelor's degree

( ) Diploma

( ) Certificate

4. Position in office

( ) Director

( ) Supervisor

( ) Office assistant

( ) Other, please specify

5. Years of service in Stanbic Bank

( ) Below 5 years

( ) 5 – 10 years

( ) Over 10 years

**B. <u>CAPITAL MARKETS DEVELOPMENT</u>**

6. How do you describe the development process of capital markets in Uganda?

( ) Very slow

( ) Slow

( ) Moderate

( ) Fast

( ) Very fast

7. At what progression level do you think Uganda's capital market is?

( ) Infant stage

( ) Growth stage

( ) Mature stage

8. Rate the role played by Stanbic bank on each of the items below. Use the following answer key;

**1** – Very high

**2** – High

**3** – Moderate

**4** – Low

**5** – Very low

| Item | | Rating | | | | |
|---|---|---|---|---|---|---|
| **No.** | | **1** | **2** | **3** | **4** | **5** |
| **1.** | Raising long-term capital | | | | | |
| **2.** | Mobilizing local savings | | | | | |
| **3.** | Providing long-term finance | | | | | |
| **4.** | Providing short-term loans | | | | | |
| **5.** | Providing medium-term loans | | | | | |
| **6.** | Buying and selling treasury bills | | | | | |
| **7.** | Providing overdrafts | | | | | |

9. State any other developments achieved as a result of capital markets development in Uganda.

(a) ........................................................................................................

(b) ........................................................................................................

(c) ........................................................................................................

(d) .......................................................................................................

**C. <u>ECONOMIC GROWTH</u>**

10. Please rate the extent to which the following aspects of economic growth have increased due to the development of capital markets in Stanbic Bank. Use the following answer key;

**1** – Very high

**2** – High

**3** – Moderate

**4** – Low

**5** – Very low

| Aspect | | Rating | | | | |
|---|---|---|---|---|---|---|
| **No.** | | **1** | **2** | **3** | **4** | **5** |
| **1.** | Investment | | | | | |
| **2.** | Capital availability | | | | | |
| **3.** | Job creation | | | | | |

## APPENDIX II

### Proposed budget for proposal and report writing

| ITEM | QUANTITY | RATE | TOTAL COST |
|---|---|---|---|
| Ream of paper | 2 | 10,000/= | 20,000/= |
| Pens | 5 | 400/= | 2,000/= |
| Proposal Typing and Printing | 2 copies | 15,000/= | 30,000/= |
| Transport | - | - | 70,000/= |
| Research Assistants | 6 | 20,000/= | 120,000/= |
| Dissertation typing, printing and binding | 4 | 40,000/= | 160,000/= |
| Miscellaneous | - | 50,0001= | |
| **TOTAL** | | | **452,000/=** |

## APPENDIX III

### Time Frame/Work plan

| TIME FRAME FOR RESEARCH REPORT | |
|---|---|
| **DURATION** | **ACTIVITY** |
| Two weeks | Proposal |
| Four weeks | Data collection |
| Three weeks | Data editing and coding |
| Three weeks | Data analysis and presentation |
| Two weeks | Report writing and compiling |
| **FIFTEEN WEEKS** | **TOTAL TIME PERIOD** |