## COLLECTIVE INVESTMENT SCHEMES AND RISK ANALYSIS OF SELECTED UGANDAN INVESTORS. : A CASE OF AFRICAN ALLIANCE UGANDA (UNIT TRUST SECTION)

BY

## STEPHEN THIGA MWAURA

BBA/7454/51/DF

## A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS AND MANAGEMENT OF KAMPALA INTERNATIONAL UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF BUSINESS ADMINISTRATION (FINANCE OPTION).

**OCTOBER 2006** 

## DECLARATION

I declare that this research project is my original work and has never been submitted to any university for any award. Where the work of others has been cited, due acknowledgment has been made.

Signature Musaurathigh. Date 16th oct, 3006

Stephen Thiga Mwaura

BBA/7454/51/DF

## APPROVAL

I certify that the work submitted by this candidate was under my supervision. His work is original and worthy for the award of a Bachelor of Business Administration (Finance option) from Kampala International University.

Supervisor..... Date.....

Dr. Nyaboga Yobes

## DEDICATION

To my parents, Benson Mwaura Thiga and Tabitha Wambura Mwaura who have supported me spiritually, morally and financially through out this academic journey.

To my siblings Nicholas Muhoro, Catherine Wanjiru and Maureen Wamuyu who in their own way gave me the motivation to accomplish this dream.

To all my friends, colleagues and lecturers whom I sincerely believe that this achievement is as much theirs as it is mine.

#### ACKNOWLEDGMENTS

The completion of a research project such as this cannot be accomplished by the work of only one individual. I would therefore like to shine the spot light on a few of the individuals whose exemplary contribution went a long way to ensure its success.

To Almighty God, the definition and source of my success. All my love to my parents who have both always gone out of their way to ensure I make it in all my endeavours. I would also like to give honourable mention to Dr. Nyaboga who supervised and advised me through out the course of my research and to my lecturers, your input and depth of knowledge was remarkable. Last but not in any way least, all my close friends and classmates who gave me the motivation and also assisted in the collection of data. I surely would not have done without those brainstorming sessions. You all really went out of your way.

My warmest appreciation and gratitude and May God bless you all

Thank you.

#### **DEFINATION OF TERMS**

The terminology used when talking about investments in general can sometimes be confusing. The glossary below does not aim to be definitive but lists terms you might come across in this research paper.

Alternative investment - Originally a catch-all term used for any socially responsible investment that did not fall into the category of a publicly traded security or mutual fund. Now describes any non-traditional investment vehicle.

Asset return - The percentage change in price of the asset over a period of time together with any cash flow, such as a dividend.

Assurance - Assurance (sometimes known as verification or auditing) is a method of evaluating the quality of a sustainability report or processes, including the underlying systems that produce the information in the report, in relation to a specified set of principles and standards. The assurance provider does not seek to judge the organization's performance himself or herself but rather simply makes sure that the report is fair and reliable allowing readers to make up their own mind.

**Beta** - A measure of volatility of a security or portfolio when compared to the market as a whole. In statistics, it is the covariance of the asset's return with the market return, divided by the volatility (standard deviation) of the market return.

**Bid price** - The price at which the fund manager will buy back units from investors i.e. the price at which investors can sell.

**Bond-** An 'IOU' issued by a large corporation or a government which pays interest and is usually repaid on a specific date.

**Capital asset pricing model (CAPM)** - An economic model based on the idea that the expected return of a security or a portfolio equals the rate on a risk-free security

plus a risk premium. If the expected return does not meet or exceed the required return, then the investment should not be made.

**Community investing** - Financing that generates resources and opportunities for economically disadvantaged people in communities that are under-served by traditional financial markets.

**Debt** - A liability or obligation in the form of bonds, loan notes, or mortgages, owed to another person or persons and required to be paid by a specified date (maturity). **Diversification** - A policy of spreading investments across a spectrum of securities to reduce risk. Volatility is limited by the fact that not all asset classes or industries or individual companies move up and down in value at the same time or at the same rate. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

**Equities** - Equity securities. Ownership interests in a corporation, stock, ownership of which usually is represented by a share certificate or stock certificate.

**Fund Manager** - The individual responsible for making decisions related to any portfolio of investments (often a mutual fund, pension fund, or insurance fund), on behalf of the customer and in accordance with the stated goals of the fund.

**Index** - A means of measuring the performance of a financial market or a sector of a particular market through the combined prices of some or all of its constituents.

**Institution** - A generic term for any organization - such as a pension fund, mutual fund, bank, or insurance company - whose primary purpose is the acquisition or management of financial assets.

**Institutional investor** - An entity with large amounts to invest, such as investment companies, pooled funds, brokerages, insurance companies, pension funds, investment banks and endowment funds. Institutional investors are covered by fewer protective regulations because it is assumed that they are more knowledgeable and better able to protect themselves. They account for a majority of overall volume.

**Investment** - An asset, which you hold back from spending today in the expectation that its real value will grow and/or produce an income over a period of time.

**Investment policy** - A formal written description of an institution's objectives for its portfolio.

Listed - Traded on a securities exchange

**Market capitalization** - The total value of a company's issued and outstanding common stock, calculated by multiplying the total number of shares by the price per share.

**Performance** - The percentage change in a portfolio's value over a specified period. In order to be meaningful, that number must be compared to a benchmark designed to gauge performance of similar types of portfolios.

**Portfolio** - A collection of investments all owned by the same individual or organization. These investments may include stocks, which are investments in individual businesses; bonds, which are investments in debt that are designed to earn interest; and mutual funds, which are essentially pools of money from many investors that are invested by professionals or according to indices.

**Portfolio management** - The management of financial assets for the benefit of another, including choosing and monitoring appropriate investments and allocating funds accordingly.

**Portfolio manager** - A person or firm who, in exchange for payment, assumes responsibility for managing part or the entire financial portfolio of Individuals or other entity. Also called a money manager.

**Portfolio risk** - The expected or actual volatility of a portfolio's returns. **Real Return** - The return on an investment, which includes the effect of inflation. Securities - A security is an instrument, issued in bearer or registered form, which is of a type commonly dealt in upon securities exchanges or markets or dealt in as a medium for investment. It is either one of a class or series or by its terms is divisible into a class of series of instruments, and evidences a share, participation, or other interest in property or in an enterprise or evidences an obligation of the issuer.

Share - A certificate representing one unit of ownership in a corporation, mutual fund, or money market mutual fund; stock.

Stock - An ownership share in a corporation. See share.

Sustainable development - There are many definitions of this but the best known is that of the World Commission on Environment and Development which holds that development is sustainable where it "meets the needs of the present without compromising the ability of future generations to meet their own needs."

**Unit Trust** - A type of collective investment scheme that allows money from individual investors to be pooled and invested across a wide range of securities, thereby spreading the risk.

**Volatility** - The relative rate at which the price of a security moves up and down. Volatility is found by calculating the annualized standard deviation of the daily change in price. A measure of the relative volatility of a stock (or portfolio) to the market is its beta.

**Yield** - This is the annual income, which an investor receives on their investment expressed as a percentage of the price paid.

## ABBREVIATIONS

BOU	Bank of Uganda
CIS	Collective investment scheme
САРМ	Capital asset pricing model
CFA	Certified financial analyst
СМА	Capital markets Authority
GDP	Gross Domestic Product
GOU	Government of Uganda
T-BILL	Treasury Bill
UGS	Uganda Shilling
USD	United States Dollar
USE	Uganda Stock exchange

## TABLE OF CONTENTS

DECLARATION	i
APPROVAL	ii
DEDICATION	iii
ACKNOWLEDGMENTS	iv
DEFINITION OF TERMS	viii
ABBREVIATIONS	ix
TABLE OF CONTENTS	xi
ABSTRACT	xii

## **CHAPTER 1**

1.1	BACKGROUND OF THE STUDY	2
1.2	STATEMENT OF THE PROBLEM	.2
1.3	RESEARCH QUESTIONS	3
1.4	OBJECTIVES OF THE STUDY	3
1.5	SIGNIFICANCE OF THE STUDY	3
1.6	SCOPE OF THE STUDY	4
1.7	THEORETICAL FRAMEWORK	.9

## **CHAPTER 2**

2.1	INTRODUCTION1	D
2.2	LITERATURE REVIEW	3

## CHAPTER 3

3.1	RESEARCH METHODOLOGY14	
3.2	RESEARCH DESIGN14	•
3.3	POULATION OF THE STUDY14	
3.4	SAMPLE PROFILE	
3.5	DATA COLLECTION15	
3.6	DATA ANALYSIS 15	

## CHAPTER 4

## DATA ANALYSIS AND INTERPRETATION OF THE FINDINGS

4.1	INTRODUCTION	16
4.2	GENREAL INVESTING PUBLIC ANALYSIS	19
4.3	COMPANY ANALYSIS	23
4.4	CAPITAL MARKETS AUTHORITY ANALYSIS	26

## **CHAPTER 5**

# CONCLUSION, RECOMMENDATIONS AND INTERPRETATION OF THE FINDINGS

5.1	CONCLUSION	27
5.2	RECOMMENDATIONS	29
5.3	SUGGESTED AREAS FOR FURTHER RESEARCH	29

## APPENDICES

QUESTIONNAIRES	35
MAP OF UGANDA	36
GENERAL ECONOMIC OVERVIEW OF UGANDA	.37
ECONOMIC INDICATORS	38
WORK PLAN	39
BUDGET PLAN	39
BIBLIOGRAPHY	.40

#### ABSTRACT

To broaden the choice of investment vehicles, involve the general public in the process of investing in securities and to enable the majority of Ugandans to participate in the on-going privatization, the Collective Investment Schemes (CIS) bill 2002 was passed by parliament. The act is aimed at enabling average Ugandans to participate in the equity, debt and money markets and will further strengthen domestic resource mobilization.

Capital Markets Authority (CMA) is currently finalizing the rules and regulations that will enable the operation of Collective Investment Schemes. CMA was responsible for protecting the interests of all investors that the CIS regime aims to attract.

The Collective investment schemes are expected to open a new opportunity by accessing the resources and consequently participation of small investors through Unit Trusts and other forms of Open Ended Investment companies.

#### **CHAPTER 1**

### 1.1 BACKGROUND OF THE STUDY

Of the many key factors to economic development, access to capital is crucial. This access to capital should be at a reasonable cost. The most outstanding difference between a developed economy and an underdeveloped one is the ability of its citizens to borrow money cheaply.

Traditional sources of finance, such as conventional banking, have proven to be quite expensive. Companies seeking a more cost effective form of borrowing are now seeking to borrow directly from the public-that is "going public" rather than from the corporate and wholesale lending markets and this is a trend that is set to continue.

Taking Uganda as the focus of the study, last year UTL (Uganda Telecommunication Limited) offered a bond to the country. The utility was borrowing directly from the public. However, the response was below expectations and the issue was under subscribed. The lack of institutional investment managers could have been the root cause of this. The lack of a formal pension fund and unit trust (collective investment schemes) industry meant that NSSF (National Social Security Fund) were the only buyers out there.

A second key part of the puzzle to economic development is the creation of savings products that channel the publics' money into such opportunities in the most cost effective manner.

Enter the collective investment scheme - The CIS are private financial arrangements. They pool resources of many small savers, generating a large pool. The resources are then invested in various assets like shares, bonds, and property and treasury bills with the sole purpose of generating high returns while minimizing risk through diversification of investments.

Collective investment schemes are the fastest growing investment products in the world according to Gary Watson a chartered financial analyst working with African Alliance. The theme behind CIS is that of creating an investment product that diversifies risks and optimizes returns. There are two main types of formal collective investment schemes (CIS); **contractual** for example, pension funds where people in employment

contractually undertake to save an agreed portion of their income each month and **discretionary** for example unit trusts where people can choose to save additional funds when they have the means. In fact, the largest investors in unit trusts today are pension funds. The simplicity and safety of the CIS appeals to the public.

Swaziland has experienced remarkable growth economically, in its capital markets and the collective investment scheme industry. The three are inextricably linked. When Swaziland issued its first government bond, pension funds and unit trusts bought the entire issue.

## **1.2 STATEMENT OF THE PROBLEM**

For many investors in developing countries, diversification may be difficult to achieve. Rest assured there are very few investors who are professional financiers in Uganda. Due to the complexity of analyzing information regarding individual securities, most Ugandan investors do not have the professional skills to manage their own investments. The concept of diversification of portfolios is upheld by the collective investment financial arrangement. The research sought to analyze the effects of this phenomenon on the investment climate and the general economic sustainability and growth.

#### **1.3 RESEARCH QUESTIONS.**

- Are collective investment schemes as savings products the way forward for investors in developing countries (Uganda)?
- Will pooling of funds and diversifying portfolios improve capital mobilization and the overall investment climate in Uganda?
- Does investors' attitude towards risk have an effect on the general economic growth and sustainability within which they operate?

#### **1.4 OBJECTIVES OF THE STUDY**

- To obtain a comprehensive grasp of the collective investment schemes dynamics and their merits as saving and investment products.
- To analyze the effects of diversification and to see whether this can improve capital mobilization and the overall investment climate in Uganda.
- To gain insight on how investors' attitudes towards risk affects the general economic growth and sustainability within which they operate.

#### **1.5 SIGNIFICANCE OF THE STUDY**

The main contribution of this research was to the academic field. This research was set to benefit to researchers who are interested in examining the impact of collective investment schemes and particularly unit trusts to developing countries both towards improving the investment climate and the economy in general.

Secondly, the researcher intended to carry out an extensive field study examining collective investment issues and their relationship with economic growth in a unit fund provider in Kampala Uganda. In this effort many lessons were learnt, especially those relating to the empirical framework and the data collected. Sharing mese lessons was beneficial to future researchers interested in examining similar issues.

The last contribution of this dissertation was the development of some recommendations based on the findings that were obtained. Since this topic is relatively new, at least in the Ugandan economy (from November 2003), it was instrumental in developing a suitable framework that may induce policy changes to create a more investment friendly economy.

### 1.6 SCOPE OF THE STUDY

The researcher intended to find out to what extent the collective investment scheme industry (unit trusts) could help spur economic growth in Uganda particularly in Kampala city. The researcher focused on investors based within the city centre. It was conducted from August to October 2006. This study was limited to the operation, growth, and performance of unit trust (collective investment schemes) in Uganda and how this would influence the sustainable growth and development of the country's economy.

## **1.7 THEORETICAL FRAME WORK**

'Discoveries take form little by little, shrouded in questioning, and only gradually assume the substance of a clear, precise, and well supported theory.'

## John Magee, 1966

Since the investment in financial securities is a function of risk and return, the concept in which these two variables interplay was the theoretical basis for this research. The researcher also sought to correlate the theories behind unit trusts and favourable economic growth.

The main reasoning behind the success of collective investment schemes (unit trusts) is that of diversification. The theories that have been propounded for this purpose include; the theory of simple diversification, portfolio efficiency theory or the capital asset pricing model (C.A.P.M.), the efficient market hypothesis among others.

John C. Bogle states that 'in the past 25 years, we have come to frame the simple logic of diversification in terms of rigorous statistical model developed by finance academics.'

Investors universally, almost always accept this theory, which is based on developing portfolios that seek returns that optimize the investors' willingness to assume risk. Risk, in turn is defined as the short-term fluctuations in expected value.

In its most comprehensive form, port folio theory dictates that a portfolio composition for instance, should include all liquid asset classes-not only Ugandan stocks, bonds and cash reserves, but international investments, short positions, foreign exchange and various curios (gold for example) from the financial market place.

## **Simple Diversification**

This is defined as 'not putting all your eggs in one basket' simple diversification was analyzed using random techniques and equal weighting to simulate the technique a naïve investor would employ. Using these naïve techniques to implement simple diversification does not nullify its ability to reduce risk in a diversified portfolio.

The theory will aid to justify the reasoning that despite the nature of investment whether big or small, diversification in its most base form can still be a helpful tool for reducing risk while maximizing returns. This in turn creates a more investment friendly environment that eventually leads to economic stability in the long run.

## The Markowitz Efficient Diversification Theory.

This may be defined as combining assets, which are less than perfectly positively correlated in order to reduce portfolio risk without necessarily sacrificing portfolio returns. This diversification is more analytical than that of simple diversification and considers assets' correlations or co variances. The lower the correlation between assets, the more portfolio risk reduced.

## **Modern Portfolio Theory (MPT)**

A theory on how risk-averse investors can construct portfolios in order to optimize market risk for expected returns, based on the assumption that accepting risk is an inherent part of realizing higher returns. The theory states that given an investor's preferred level of risk, a particular portfolio can be constructed that maximizes expected return for that level of risk. It is also known as the modern investment theory.

## The capital asset pricing model (C.A.P.M.)

A model that describes the relationship between risk and expected return and that is used in the pricing of risky securities.

$$\overline{r_a} = r_f + \beta_a (\overline{r_m} - r_f)$$

Where:

 $r_{f}$  = Risk free rate  $\beta_{a}$  = Beta of the security  $r_{m}$  = Expected market return The general idea behind CAPM is that investors need to be compensated in two ways: time value of money and risk. The time value of money is represented by the riskfree (rf) rate in the formula and compensates the investors for placing money in any investment over a period of time. The other half of the formula represents risk and calculates the amount of compensation the investor needs for taking on additional risk. This is calculated by taking a risk measure (beta) that compares the returns of the asset to the market over a period of time and to the market premium (Rm-rf).

The CAPM says that the expected return of a security or a portfolio equals the rate on a risk-free security plus a risk premium. If this expected return does not meet or beat the required return, then the investment should not be undertaken. The security market line plots the results of the CAPM for all different risks (betas).

Using the CAPM model and the following assumptions, we can compute the expected return of a stock: if the risk-free rate is 3%, the beta (risk measure) of the stock is 2 and the expected market return over the period is 10%, the stock is expected to return 17% (3%+2(10%-3%)).

## The Efficient Market Hypothesis & The Random Walk Theory

An issue that is the subject of intense debate among academics and financial professionals is the Efficient Market Hypothesis (EMH). The Efficient Market Hypothesis states that at any given time, security prices fully reflect all available information. The implications of the efficient market hypothesis are truly profound. Most individuals that buy and sell securities (stocks in particular) do so under the assumption that the securities they are buying are worth more than the price that they are paying, while securities that they are selling are worth less than the selling price. But if markets are efficient and current prices fully reflect all information, then buying and selling securities in an attempt to outperform the market will effectively be a game of chance rather than skill.

The Efficient Market Hypothesis evolved in the 1960s from the Ph.D. dissertation of **Eugene Fama**. Fama persuasively made the argument that in an active market that

includes many well-informed and intelligent investors, securities will be appropriately priced and reflect all available information. If a market is efficient, no information or analysis can be expected to result in out performance of an appropriate benchmark.

An 'efficient' market is defined as a market where there are large numbers of rational, profit-maximizers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants. In an efficient market, competition among the many intelligent participants leads to a situation where, at any point in time, actual prices of individual securities already reflect the effects of information based both on events that have already occurred and on events which, as of now, the market expects to take place in the future. In other words, in an efficient market at any point in time the actual price of a security will be a good estimate of its intrinsic value.

The random walk theory asserts that price movements will not follow any patterns or trends and that past price movements cannot be used to predict future price movements. Much of the theory on these subjects can be traced to French mathematician Louis Bachelier whose Ph.D. dissertation titled "The Theory of Speculation" (1900) included some remarkably insights and commentary. Bachelier came to the conclusion that "*The mathematical expectation of the speculator is zero*" and he described this condition as a "fair game." Unfortunately, his insights were so far ahead of the times that they went largely unnoticed for over 50 years until his paper was rediscovered and eventually translated into English and published in 1964.

## There are three forms of the efficient market hypothesis

1. The "Weak" form asserts that all past market prices and data are fully reflected in securities prices. In other words, technical analysis is of no use.

2. The **"Semi strong" form** asserts that all publicly available information is fully reflected in securities prices. In other words, fundamental analysis is of no use.

3. The **"Strong" form** asserts that all information is fully reflected in securities prices. In other words, even insider information is of no use.

Securities markets are flooded with thousands of intelligent, well-paid, and welleducated investors seeking under and over-valued securities to buy and sell. The more participants and the faster the dissemination of information, the more efficient a market should be.

The debate about efficient markets has resulted in hundreds and thousands of empirical studies attempting to determine whether specific markets are in fact "efficient" and if so to what degree. Many novice investors are surprised to learn that a tremendous amount of evidence supports the efficient market hypothesis. Early tests of the EMH focused on technical analysis and it is chartists whose very existence seems most challenged by the EMH. And in fact, the vast majority of studies of technical theories have found the strategies to be completely useless in predicting securities prices. However, researchers have documented some **technical anomalies** that may offer some hope for technicians, although transactions costs may reduce or eliminate any advantage.

Researchers have also uncovered numerous other **stock market anomalies** that seem to contradict the efficient market hypothesis. The search for anomalies is effectively the search for systems or patterns that can be used to outperform passive and/or buy-and-hold strategies. Theoretically though, once an anomaly is discovered, investors attempting to profit by exploiting the inefficiency should result its disappearance. In fact, numerous anomalies that have been documented via back testing have subsequently disappeared or proven to be impossible to exploit because of transactions costs.

The paradox of efficient markets is that if every investor believed a market were efficient, then the market would not be efficient because no one would analyze securities. In effect, efficient markets depend on market participants who believe the market is inefficient and trade securities in an attempt to outperform the market.

In reality, markets are neither perfectly efficient nor completely inefficient. All markets are efficient to a certain extent, some more so than others. Rather than being an issue of black or white, market efficiency is more a matter of shades of gray. In markets with substantial impairments of efficiency, more knowledgeable investors can strive to outperform less knowledgeable ones. Government bond markets for instance, are

considered to be extremely efficient. Most researchers consider large capitalization stocks to also be very efficient, while small capitalization stocks and international stocks are considered by some to be less efficient. Real estate and venture capital, which don't have fluid and continuous markets, are considered to be less efficient because different participants may have varying amounts and quality of information.

The efficient market debate plays an important role in the decision between active and passive investing. Active managers argue that less efficient markets provide the opportunity for out performance by skillful managers. However, its important to realize that a majority of active managers in a given market will under perform the appropriate benchmark in the long run whether markets are or are not efficient. This is because active management is a zero-sum game in which the only way a participant can profit is for another less fortunate active participant to lose. However, when costs are added, even marginally successful active managers may under perform.

A third view of market efficiency, which holds that the securities market will not always, be either quick or accurate in processing new information. On the other hand, it is not easy to transform the resulting opportunities to trade profitably against the market consensus into superior portfolio performance. Unless the active investor understands what really goes on in the trading game, he can easily convert even superior research information into the kind of performance that will drive his clients to the poorhouse . . . why aren't more active investors consistently successful? The answer lies in the cost of trading.

#### **CHAPTER 2**

## 2.1 INTRODUCTION

'...And beyond economics, the absence of growth means, necessarily, that sub-Saharan nations will remain plagued by poor investment policies and comparatively low mobilization of capital for indefinite periods into the future'

George L. Priest, 1997.

Reviewing of the available literature of past studies done on this field will work to validate the positive impact that unit trusts are bound to have on the sustainable economic growth of developing countries.

## 2.2 LITERATURE REVIEW

**Gary Watson (2005)** a fund manager and Investment Analyst with African Alliance Uganda acknowledges that, Ugandan has a very risk averse investing population. This means that their preferences in terms of investment edge towards less volatile ventures, with low risk and subsequently low return. This fact has led to the slow growth of the capital markets particularly the stock exchange (USE) with only eight companies listed in eight years and trading only taking place twice a week.

In as much as the Ugandan finance market is relatively young, the poor numbers cannot be justified, as there are solutions that can help to amend these anomalies. The rationale here would be to provide financial products that cater to the needs of these generally risk averse Ugandan investor.

The collective investment schemes and more specifically unit trusts have been used with great success in developed and more competitive financial markets. In fact, unit trusts are by far the fastest growing investment product in the South Africa. The theme behind them is that of diversification where blends of different securities are combined to reduce the overall risk the investor faces. The unit trusts would also be able to provide a means for mobilization of savings and enable small investors to participate in capital markets.

Leo Kibiringo (2005), the former CMA board chairman, argues that Government of Uganda policies generally facilitate the free flow of financial resources to support the flow of resources in the product and factor markets. In November 2003, he also adds, the Government of Uganda enacted a collective investment law to allow investors to pool funds to be invested on the USE and in government T-bills. In December 2004, CMA licensed African Alliance Uganda to operate the first Ugandan collective investment scheme. Earlier in 2004, the Bank of Uganda successfully issued 2-, 3-, 5-, and 10-year government bonds totaling UGS 195billion (approximately USD 110 million). The GOU hopes that by creating a benchmark yield curve it will encourage private companies to access the debt markets. The government bonds sopped up sufficient liquidity from the economy that the GOU has been able to lower T-bill auctions, somewhat dampening T-bill interest rates.

The banking industry generally is sound, well capitalized and without serious non-performing loan problems. Tighter Bank of Uganda supervision, including more stringent inspections and higher capital requirements, has helped the sector recover from the closing of several domestic banks in 1998/99. The total size of the commercial banking system is roughly UGS 3 trillion (approximately USD 1.6 billion). Most banks are foreign owned, including major international institutions such as Citigroup, Barclays, and Standard Chartered, the largest bank, has assets of over USD 900 million, followed by Stanbic with assets of nearly USD 800 million. Ugandan banks remain conservative and have been criticized for a lack of enthusiasm when it comes to lending to all but the largest blue-chip operations.

While the BOU remains largely respected, its independence has been called into question by evidence that the GOU pressured it to cover nearly USD 12 million in debts run up by a politically well-connected local businessman. The GOU is contemplating moving government accounts from commercial banks to the BOU.

Nicholas Biekpe (2002) states that, in recent years, African markets have on average out-performed all leading market indicators. Emerging markets specialists believe this is just the beginning of an even greater performance from Africa's fledgling stock markets. This is both optimistic and simplistic, but positive feelings have led some fund managers to back those feelings with cash by investing in the region. A recent example is the Southern Africa unit trust, from Save & Prosper, the retail fund arm of the merchant bank Robert Fleming, which raised £10 million. Others include the Africa Investment fund from US investment bank Morgan Stanley, which raised £230 million, and Baring Asset Management, a UK fund management company. Of the few African funds that exist, most of the money is invested in South Africa. If this trend is extended to other developing countries, Economies of African countries would leap frog and get to those of developed countries.

African stock markets are still in their development phase. However, many emerging market specialists believe that these are the last undiscovered stock markets in the world. There has been some significant under valuation of African stock markets over a number of years. This under valuation has been, consequently, translated by most analysts into an out-performance of the African stock market indices relative to other emerging stock market indices even without a substantial foreign investor base. Once a substantial foreign investor base emerges, this out-performance was significantly magnified.

According to **Collier (1997)**, the distribution of international capital is being conducted in a very discretionary way, leaving Africa on the sideline. Competition to attract foreign investment is intensifying as emerging stock exchanges adopt development strategies based on increased integration in the world markets. Thus, for the African markets to survive well into the next millennium, it is important that the respective governments in the region put in place sound fiscal and monetary policies. This should be accompanied by macro-economic reforms that will: bolster investor confidence, build a strong supervisory and regulatory infrastructure, help cultivate modern risk-management techniques within the private sector, put more emphasis on privatization, and help to open the economies to foreign participation with bold trade and financial sector liberalization to improve efficiency.

Corporate sector reforms should involve the improvement of corporate disclosure and accounting standards to facilitate the move to a market-driven investment culture.

The World Bank anticipates that the economies of sub-Saharan Africa will grow at a rate of 3.9 per cent a year from now until 2003, boosted by robust capital markets and a recovery in commodity prices. There is a strong body of opinion that believes that to get the best returns investors must get into collective investment scheme arrangements as soon as possible and in markets other than South Africa. This is easier said than done. Apart from South Africa and Egypt, most of the exchanges have fewer than 50 quoted companies, with more than 80 per cent of each market's worth concentrated in its top 10 stocks. Most of those are the African subsidiaries of multinationals, such as Barclays, Unilever, Mobil, and Standard Chartered. With the advent of universal Internet use, this is beginning to change. The lack of information has always proved a barrier to external investment for Africa and the Internet provides a window into the continent for external investors.

## **CHAPTER 3**

## 3.1 RESEARCH METHODOLOGY

This covered the description of methodology that was used in the study. It stated the research designs used during the collection of both primary and secondary data and the sample population.

## 3.2 RESEARCH DESIGN

This study adopted both Quantitative and Qualitative types of survey based research. The Quantitative survey approach employed the use of standardized questionnaires that were later analyzed. Qualitative type of survey-based research used interviews that were meant to enable the researcher collect in-depth qualitative information.

#### 3.3 **POPULATION OF STUDY**

The research undertaken included three groups, namely the general investing public in Kampala city Uganda, investment analysts at African Alliance Uganda and capital markets authority (CMA) Uganda officials.

## 3.4 SAMPLE PROFILE

Due to the large population, only a cross section (sample) was used for convenience purposes. The population sample was as representative as possible to ensure objectivity.

The sample consisted of sixty respondents from the general investing public, three investment analysts working with African alliance Uganda and the final group of respondents will consist of two officials working with the Capital markets authority. (CMA)

The table shows the distribution of respondents.

Sample of population	Number of respondents
General investing public	60
Investment analysts	3
CMA officials	2
TOTAL	65

## 3.5 DATA COLLECTION

The most convenient form of data collection was through questionnaires. The researcher set questions and sent them directly to the identified respondents by using, direct mail, e-mail and personal delivery to the points of the respondents' convenience. Interviews were conducted through the phone, face-to-face and chatting through the Internet.

## 3.4 DATA ANALYSIS

Data was analyzed using descriptive statistics, which included pie charts, graphs, tables and trend maps.

The raw data collected from the field was thoroughly analyzed with a view to checking for completeness and accuracy.

## **CHAPTER 4**

## DATA ANALYSIS AND INTERPRETATION AND FINDINGS

## 4.0 INRODUCTION

In the previous chapter, the researcher explained the methodology that was adopted for data collection. This chapter sought to analyze, summarize, and interpret these findings from the questionnaires, interviews and other sources of secondary data such as journals.

## 4.1 INDIVIDUAL ANALYSIS

## Sex of the respondents

Men represented the greater majority of the investing population in Kampala Uganda. The table and pie chart below summarize these findings.

SEX	FREQUENCY	PERCENTAGE
MALE	43	71.66 %
FEMALE	17	28.34 %
TOTAL	60	100.00 %

Source: Primary data

## A PIE CHART SHOWING THE GENDER DISTRIBUTION OF THE KAMPALA'S INVESTING PUBLIC.



Males
Females

Source: Primary data

The main reason this survey was conducted was to establish the gender disparity among the investors of Kampala city. This information would be important in creating investment sensitization programs for the marginalized gender.

## Age of the respondents

A greater percentage of the respondents lay in the 31-40 years age bracket. The age bracket provides an insight on the potential of the investment climate of Kampala, Uganda.

The table and pie chart below summarize these findings.

AGE BRACKET	FREQUENCY	PERCENTAGE
20-30	4	6.67%
31-40	33	55%
41-50	16	26.67%
50 and above	7	11.67%
TOTAL	60	100.00%

## A PIE CHART SHOWING THE AGE DISTRIBUTION OF KAMPALA INVESTORS



20-30
■ 31-40
□ 41-50
■ 50 and above

Source: primary data

This information was instrumental in providing a telling trend of whether the younger generations are adopting an investing culture. The younger generation of investors represents the hope of sustainability of the economy.

## PERCENTAGE OF INCOME INVESTED.

A worrying observation was made in this survey. About half of the respondents invest less than 10% of the income. No respondent invested more than 50% of their income from gainful employment.

The table below summarizes these findings.

PERCENTAGE OF	FREQUENCY	PERCENTAGE			
INCOME INVESTED.					
Less than 10%	27	50.94%			
10-20%	21	39.62%			
21-30%	4	0.08%			
31-40%		-			
41-50%	1	0.02%			
Above 50%	-				
TOTAL	53	100%			

NOTE: Seven respondents declined to provide this data.

## PREFERRED INVESTMENT AVENUE

The investment avenue preferred by the respondents worked to help the researcher establish whether Kampala residents were warming up to financial securities as viable investment avenues.

INVESTMENT	NO. OF RESPONDENTS	PERCENTAGE		
AVENUE				
Financial Securities	9	15%		
Conventional Banking	38	63.33%		
Other	13	21.67%		
TOTAL	60	100.00%		

## Source: Primary data

## UNIT TRUST AWARENESS

The data provided helped the researcher establish the level of awareness of unit trusts. It is summarized in the table below.

UNIT TRUST AWARENESS	FREQUENCY	PERCENTAGE
Aware	16	26.67%
Unaware	44	73.33%
Total	60	100.00%

Source: Primary data

## 4.2 COMPANY ANALYSIS

African alliance is currently the only licensed unit trust provider in Uganda and as such all research on company analysis was undertaken there. The company's unit trust section has been in operation from 2001 under a provisional license and was fully licensed to operate in 2003.

## **GROWTH RATE OF UNIT TRUSTS (IN TERMS OF UNIT SALES)**

Year	Percentage growth rate	
2001	-	_
2002	12.01%	
2003	17.83%	
2004	6.34%	-
2005	13.74%	

Source: African Alliance Uganda

## BAR GRAPH SHOWING THE ANNUAL PERCENTAGE GROWTH RATE IN TERMS OF SALES VOLUME



Source: African Alliance Uganda

## COMPARATIVE ANALYSIS BETWEEN UNIT TRUSTS AND OTHER FINANCIAL PRODUCTS OFFERED BY AFRICAN ALLIANCE.

The parameter used here was percentage of sales volume each product represented.

Year	Unit Trusts	Banking services	Sale of Individual Securities
1	-	86.1%	13.9%
2	6%	83%	11%
3	6.5%	77.9%	15.6%
4	7.3%	79.2%	13.5%
5	8.4%	75.3%	16.3%

## Source: African Alliance Uganda

## A BAR GRAPH SHOWING THE COMPARATIVE SALES VOLUME OF FINANCIAL PRODUCT S OFFERED BY AFRICAN ALLIANCE.



## Source: African Alliance Uganda

Although unit trusts had been contributing the least to the sales volume. There seemed to be a steady growth and this could be interpreted as a positive sign that more

people were gradually learning about and accepting the validity of unit trusts.

## COMPARATIVE ANALYSIS BETWEEN ANNUAL PORTFOLIO RETURNS AND INDIVIDUAL SECURITIES RETURNS.

Year	Unit trusts	Government bonds	Treasury bills	Corporate bonds	Equities (USE all share index)
2001	-	15.48%	8.33%	10.75%	67.2%
2002	15.82%	13.00%	8.41%	13.65%	16.1%
2003	14.43%	14.23%	7.98%	10.25%	52.1%
2004	16.65%	13.33%	7.06%	14.50%	11.4%
2005	15.53%	13.95%	9.81%	13.35%	24%

## Source: African alliance Uganda

## A TREND MAP SHOWING COMPARATIVE SECURITIES' RETURNS



## Source: African alliance Uganda

From the trend map, it can be observed that unit trust have so far been producing superior returns as compared to other individual financial securities.

Another notable observation was the volatility of equities and the relative stability of the other four financial securities.

Treasury bills are usually sold at a risk free rate and as result their returns are almost equal to the inflation ceiling of 10% on the trend map.

## COMPARISON BETWEEN UNIT TRUST PORTFOLIO RETURNS AND THE INFLATION RATE.

Year	Unit trusts	Inflation Rate	
2001	-	3.5%	
2002	15.82%	6.2%	
2003	14.43%	5.9%	
2004	16.65%	4.8%	
2005	15.53%	5.6%	

Source: African alliance Uganda

## A BAR GRAPH SHOWING COMPARISON BETWEEN UNIT TRUST PORTFOLIO RETURNS AND THE INFLATION RATE.



Source: African alliance Uganda

## 4.3 CAPITAL MARKETS AUTHORITY ANALYSIS

The Uganda capital markets Authority (CMA) is a semi-independent Government funded body established under the capital markets authority statute of 1996 and is charged with the development and regulation of the capital markets industry in Uganda. It oversees the activities of the Uganda securities exchange and licenses all other market participants and professionals. In addition to these activities, it is charged with the promulgation of regulations to govern capital activities and the development of long term sources of capital.

## GOVERNMENT'S INITIATIVE TOWARD PROMOTION OF COLLECTIVE INVESTMENT SCHEMES IN UGANDA

The Government of Uganda approved the pensions and collective investment schemes on the 19<sup>th</sup> of November 2003.

CMA's priority then was to implement the collective investment scheme (CIS) Act and pave the way for the licensing and approval of schemes, fund managers, trustees and all other intermediaries required under the CIS Act.

CMA also needed to advise the Government on CIS aspects that would be included in its financial sector strategy, to ensure that there was comprehensive and cohesive long-term support for growth and sustainability of the CIS sector.

### **IMPACT OF THE COLLECTIVE INVESTMENT SCHEMES (UNIT TRUSTS)**

According to the CMA officials it was still too early to tell what impact the approval of the pensions and collective investment schemes Act had on the economy thus far.

They argued that more time was needed to provide a telling trend of the economic impact of collective investment schemes in terms of growth and sustainability.

## SENSITIZATION PROGRAMS FOR COLLECTIVE INVESTMENT SCHEMES AS A VIABLE INVESTMENT AVENUE IN UGANDA.

The CMA officials cited lack of proper sensitization programs as the major draw back of capital mobilization in Uganda. A large portion of the population sample that would be potential investors had little or no knowledge of capital markets and even fewer had knowledge of discretionary collective investment schemes (Unit trusts) and pension funds.

# COORDINATION BETWEEN POLICY MAKERS (GOU), REGULATORS (CMA) AND PRIVATE SECTOR.

The capital markets authority officials were confident of the regulatory environment that they have created for this investment vehicle. It was also important to note that it has been documented that most regulators in Africa are known to overregulate a given industry. This often led to a breakdown in the regulatory process or even destroyed an industry in its infant stages. The plat form, regulatory environment (CMA) and financial markets (private sector) are solid. What remained was for the policy makers to provide sound policy framework that would support these cohesively and in a coordinated effort.

### **ANNUAL ECONOMIC PERFORMANCE FROM 2003.**

It was rather complex to ascertain what percentage of economic growth was actually attributable to Collective investment schemes particularly unit trusts. However the economy had generally been improving since the introduction of collective investment scheme Act in 2003.

## UGANDA'S ECONOMIC PERFORMANCE IN TERMS OF REAL GDP GROWTH AND REAL GDP PER CAPITA GROWTH.

	(Annual, average percentage)
Year	General economic performance (real GDP growth)
2002	5.2
2003	4.7
2004	5.7
2005	5.9

	(Annual, average percentage)
Year	General economic performance (real GDP per capita growth)
2002	2.5
2003	1.9
2004	3.1
2005	3.6

Source: UNCTAD secretariat estimates based on World Bank, World Development Indicators, online data, December 2005; and UNCTAD FDI/TNC database and Handbook of Statistics, 2005.

## A TREND MAP SHOWING THE ANNUAL ECONOMIC GROWTH BASED ON THE REAL GDP GROWTH



Source: UNCTAD secretariat estimates based on World Bank, World Development Indicators, online data, December 2005; and UNCTAD FDI/TNC database and Handbook of Statistics, 2005.

## **CHAPTER 5**

## CONCLSION, RECOMMENDATIONS AND SUGGESTED AREAS FOR FURTHER RESEARCH.

## 5.1 CONCLUSION

Based on the findings in the previous chapter, it is can safely be concluded that collective investment schemes (unit trusts) are a worthy investment vehicle and have thus far had a positive impact on the investment climate and economy of Uganda in general. The findings also show a promise of a better financial sector future if the trend continues. Though the improvement has been rather marginal it cannot be ignored. It is hoped that the collective investment sector will prove to be the most appealing investment product in Uganda as it has been in many developed and other developing economies.

#### 5.2 **RECOMMENDATIONS**

## I. OPEN COLLECTIVE INVESTMENT SCHEMES WILL CONTRIBUTE TO ECONOMIC GROWTH, DEVELOPMENT, AND STABILITY

• Collective investment schemes (unit trusts) will facilitate economic growth and development by substantially broadening the range of vehicles for savings and investment and lowering the cost of capital for businesses and entrepreneurs. The banking sector is strengthened by the unit trusts, which provide liquidity by making available both tradable investments and the opportunity to transform previously illiquid loans into tradable securities.

• The collective investment schemes will also offer participants an efficient way to hedge various forms of economic risks.

• By diversifying both the avenues for investing savings and the sources of funding for entrepreneurial activity beyond the banking sector, collective investment schemes will enhance financial stability. Such diversification ameliorates the negative effects of economic downturns. Banks experiencing unusually large demands by depositors was able to draw on a deeper pool of liquid assets. Moreover, when banks experience financial difficulties, the collective investment schemes offer an alternative mechanism for sustaining broad economic activity. As Ugandan financial authorities have observed financial difficulties, the collective investment schemes offer an alternative mechanism for sustaining broad economic activity. As Ugandan financial authorities have observed so far, banks have played an important role in financing the needs of the country's rapidly growing economy. However, the experience of the recent crisis points to a real danger of over-burdening the banking system with the task of financing production in the economy. A more diversified financial system – one in which the collective investment schemes will play a much bigger role than it does currently – can minimize this danger and would result in a more efficient and robust mechanism for mobilizing and allocating financial resources in the economy.

• The development of collective investment schemes was assisted by the presence of foreign suppliers of capital markets-related services, whether through commercial presence or the delivery of services cross-border. Experience demonstrates that foreign suppliers enhance competition and bring to a market additional capital, innovative financial products, technology, and expertise. Each of these factors can reduce the cost of financial services, and thereby improve the competitiveness of domestic companies that use these services.

## **II. SOUND REGULATION OF THE COLLECTIVE INVESTMENT SCHEMES**

• Sound regulation should be designed to protect investors, promote fair, efficient, and transparent markets, and reduce systemic risk, which is essential for healthy and competitive markets. Individuals and companies seeking to invest or raise funds will not rely on the capital markets unless they have confidence that those markets are well regulated.

• Financial services regulations should typically include standards that a supplier must meet in order to be authorized or licensed to do business in a market, such as standards that address the supplier's knowledge, resources, skills, and risk management procedures. Financial services regulations should also address the conduct of a supplier doing business in a market, including rules relating to disclosure of information (including risk warnings) to customers, disclosure of information about the supplier, execution of orders, and the protection of customer assets ("conduct of business rules"),

as well as rules relating to fraud, insider dealing, and market manipulation ("market conduct rules").

• An effective regulatory regime will maximize access for suppliers and consumers without undermining key regulatory objectives. As the International Organization of Securities Commissions (IOSCO) has noted, a regulator often conducts a: [cost-benefit] analysis to facilitate an understanding of the financial and other costs of the proposed regulation to the intermediary as compared to the benefits the regulation is expected to produce for investors and other market participants.

• Regulation must be transparent: both suppliers and consumers of collective investment schemes services must know what the rules are and have confidence that the rules was applied consistently and fairly. Although there are different ways to achieve this, in general, regulators should:

(i) Propose regulations in draft form and provide interested parties the opportunity to comment on such draft regulations, where practicable;

(ii) Make publicly available the requirements that suppliers must meet in order to supply a service; and (iii) enforce laws and regulations according to fair and transparent criteria.

## 5.3 SUGGESTED AREAS FOR FURTHER RESEARCH

The researcher identified the following as important areas for further research.

- The contractual collective investment schemes (pension funds).
- The potential agency /principal problem that could be created between Unit trust holders and unit trust company directors.
- Community effects on portfolio choice that is what choice of investment could the herding effect lead communities to adopt.
- The potential home ownership bias that could result collective investment schemes such is the case in developed countries.
- The micro unit trust financial product. Would this provide an alternative investment avenue for the "poorest of the poor"?

## APPENDICES

## **APENDIX 1: QUESTIONNAIRES**

## **OUESTIONNAIRE 1**

Please tick where necessary

## **INDIVIDUALS**

Please tick where appropriate. The information you provide will solely be used for purposes of conducting this research and was treated with utmost confidentiality.

		v					
1.	Sex of the re	sponder	ıt				
🗆 Male			🗆 Fe	□ Female			
2. Ag	e bracket						
🗆 Bet	ween 20 -30			□ 31-40years			
□ 41-5	50 years			$\Box$ 50 and al	bove yea	rs	
Occuj	pation						
3.	Marital statu	IS	• • • • • • • • • •			****	
	Single				marri	ed	
Other	'S						
	(Specify)		•••••				••••••
	*				•••••	•••••	
5.	What percen	tage of y	your in	come do you	ı save/ in	vest?	
	Less than 10 <sup>o</sup>	%		10%-20%			21%-30%
	31%-40%			41%-50%			Over 50%
6.	In which of the	hese wo	uld do	you prefer to	) invest?		
0	Financial sec	urities					
	Conventional	l bankin	g				
0	Other business						
7.	Have you ever invested in unit trusts?						
	YES		NO				
8.	If yes, what was your experience?						
	•••••	••••••		•••••	••••••	• • • • • • •	
	*****	*******		••••	•••••	• • • • • • • • •	

9. If no, which of these factors could have led to you to not investing in unit trusts? (You may tick more than one)

Lack of adequate capital □ (lack of minimum capital required)

Lack of interest

Lack of interest

□ (aware but uninterested)

Lack of assurance

□ (interested but skeptical)

Lack of access to a unit trust fund □ (interested but lacks access)

Other (specify)

10. In your opinion, would investing in unit trust be a feasible investment avenue in Uganda?

 $\Box$  YES  $\Box$  NO

## <u>QUESTIONNAIRE 2</u> AFRICAN ALLIANCE

Please tick where appropriate. The information you provide was used solely for purposes of conducting this research and was treated with utmost confidentiality. Please tick where appropriate.

General Information Physical address:	
Website:	
Contact person:	
Position held:	
1. How long have you been	n operating unit trust in Uganda?
🗆 1-3 years	$\Box$ 3-5 years

□ 5-7years □ 7 years and above

2. Is the Ugandan financial market responding positively to unit trusts?

3. What has been the growth rate of unit trusts in terms of annual sales volume since you first introduced the product in Uganda?

Year	Percentage growth in sales
1	
2	
3	
4	
5	

4. Do you offer any other financial services other than unit trusts?

□ Yes □ No

# 5. If yes, what services are these?

6. Can these financial services be said to be alternatives to unit trusts?

## □ Yes □No

Year	Unit trusts	Other services
1		
2		
3		
4		
5		

## 7. If yes, what has been the annual comparative performance in terms of sales volume?

## 8. What have been the annual rates of portfolio returns from unit trusts as compared to market returns of alternative financial securities?

Year	Unit trusts	Government bonds	Treasury bills	Corporate bonds	Equities (USE all share index)
1					
2				[	
3					
4					
5					

9. Have unit trust returns been above inflation rate during the period you have been operational?

 $\Box$  Yes  $\Box$  No

10. If yes, what have been the yearly comparative returns of unit trusts and the inflation rate?

Year	Unit trust returns	Inflation rate
2001		
2002		
2003		
2004		
2005		

## 11. How do you promote unit trusts in Uganda?

## <u>OUESTIONNAIRE 3</u> <u>Capital markets authority (CMA)</u>

<u>General</u>	Informat	<u>tion</u>			
Physical	l address:		•••••		•••••
Website			•••••	••••••	•••••
Contact	person: .			•••••	•••••
Position	held:			••••••	
1.	What ha investme	ns the governme ent industry?	ent done towar	ds the promotion of th	e collective
2. Has the introduction of collective investment schemes Act in Uganda helped in the growth of capital markets and the economy in general?					
		:5			
3.	3. In your opinion, what has been the major draw back when investing in the capital markets particularly through unit trusts?				
				•••••	•••••
4.	Have yo policy m	u had any co-o 1akers, and the	rdination prob private sector?	lems between you (the	e regulators) the
	🗆 Yes		🗆 No		
5.	What hat collectiv	as been the per- e investment so	centage annual chemes (since t	economic growth attr he enactment of the C	ributable to IS Act in 2003)?

Year	Percentage economic growth	
2003		
2004		
2005		
2006		

## APENDIX 2 MAP OF UGANDA SHOWING MAJOR TOWNS THAT SHOULD BE TARGETTED FOR FINANCIAL MARKETS REFORMS.



#### **ECONOMIC OVERVIEW**

Uganda has substantial natural resources, including fertile soils, regular rainfall, and sizable mineral deposits of copper and cobalt. Agriculture is the most important sector of the economy, employing over 80% of the work force. Coffee accounts for the bulk of export revenues. Since 1986, the government - with the support of foreign countries and international agencies - has acted to rehabilitate and stabilize the economy by undertaking currency reform, raising producer prices on export crops, increasing prices of petroleum products, and improving civil service wages.

The policy changes are especially aimed at dampening inflation and boosting production and export earnings. During 1990-2001, the economy turned in a solid

performance based on continued investment in the rehabilitation of infrastructure, improved incentives for production and exports, reduced inflation, gradually improved domestic security, and the return of exiled Indian-Ugandan entrepreneurs. In 2000, Uganda qualified for enhanced Highly Indebted Poor Countries (HIPC) debt relief worth \$1.3 billion and Paris Club debt relief worth \$145 million.

## **ECONOMIC INDICATORS (UGANDA)**

GDP (purchasing power parity): \$48.73 billion (2005 est.) GDP (official exchange rate): \$7.909 billion (2005 est.) GDP - real growth rate: 4% (2005 est.) GDP - per capita (PPP): \$1,800 (2005 est.) GDP - composition by sector: agriculture: 31.1% industry: 22.2% services: 46.9% (2004 est.) Labor force: 13.17 million (2005 est.) Labor force - by occupation: agriculture: 82% industry: 5% services: 13% (1999 est.) **Unemployment rate: NA%** Population below poverty line: 35% (2001 est.) Household income or consumption by percentage share: lowest 10%: 4% highest 10%: 21% (2000) Distribution of family income - Gini index: 43 (1999) Inflation rate (consumer prices): 8.1% (2005 est.) Investment (gross fixed): 23.4% of GDP (2005 est.) Budget: revenues: \$1.845 billion expenditures: \$1.904 billion; including capital expenditures of \$NA (2005 est.) **Public debt:** 64.3% of GDP (2005 est.) Agriculture - products: coffee, tea, cotton, tobacco, cassava (tapioca), potatoes, corn, millet, pulses, cut flowers; beef, goat meat, milk, poultry

Industries: sugar, brewing, tobacco, cotton textiles; cement, steel production

Industrial production growth rate: 9% (2005 est.) Electricity - production: 1.729 billion kWh (2003) Electricity - consumption: 1.448 billion kWh (2003) Electricity - exports: 160 million kWh (2003) Electricity - imports: 0 kWh (2003) Oil - production: 0 bbl/day (2003 est.) Oil - consumption: 10,000 bbl/day (2003 est.) **Oil - exports:** NA bbl/day **Oil – imports:** NA bbl/day Natural gas - production: 0 cu m (2003 est.) Natural gas - consumption: 0 cu m (2003 est.) Exports: -\$355 million (2005 est.) Exports - commodities: coffee, fish and fish products, tea, cotton, flowers, horticultural products; gold Exports - partners: Kenya 15.2%, Belgium 10%, Netherlands 9.7%, France 7.2%, Germany 5.2%, Rwanda 4% (2005) Imports: \$1.608 billion f.o.b. (2005 est.) **Imports - commodities:** capital equipment, vehicles, petroleum, medical supplies; cereals Imports - partners: Kenya 32%, UAE 8.6%, South Africa 6.4%, India 5.8%, China 5.2%, UK 4.4%, US 4.1%, Japan 4% (2005) Reserves of foreign exchange and gold: \$1.286 billion (2005 est.) Debt - external: \$4.973 billion (2005 est.) Economic aid - recipient: \$959 million (2003) **Currency (code):** Ugandan shilling (UGX) Exchange rates: Ugandan shillings per US dollar - 1,780.7 (2005), 1,810.3 (2004), 1,963.7 (2003), 1,797.6 (2002), 1,755.7 (2001) Fiscal year: 1 July - 30 June

Source: The central intelligence agency world fact book. Reference Uganda.

## APENDIX 3

## WORK PLAN

The researcher spent a period of 13 weeks to complete the research.

Activity	Duration
Familiarization with the company	1 week
Review of the company Literature	2 weeks
Propose the questionnaire	1 week
Writing and Forwarding the proposal	1 week
Mailing of questionnaires	1 week
Interviewing respondents	1 week
Receiving respondents feedback	1 week
Data analysis	2 weeks
Final report	1 week
Editing of the report	1 week
Submission and defense	1 week

## **BUDGET PLAN**

The researcher used the following amount of money in order to complete the project.

Activities	Cost per item (Ugshs)	No. Of hours per	Total
Typing	1000 per hour	6	6,000
Phone calls	200 per minute	3	36,000
E-mail	20 per minute	5	5,000
Photocopying	50 per page (100)		50,000
Total			97,000

NB: This amount was for a period of 6 weeks, with researcher using 97,000 ugshs per week.

### BIBLIOGRAPHY

- Alexeeva Ekaterina (1998): <u>managing collective investment funds</u>, Cadogan financial New York Institute of finance.
- Bogle J. C. (2001): <u>common sense on mutual funds</u>, the structure of collective investment schemes.
- Francis J. C (1988): <u>Investment analysis and management, the theories of risk</u> and return, 2<sup>nd</sup> Edition, John Willey and sons Publishers.
- 4. Pollack K: The real life-investing guide, the millennium edition.
- Lipper A M: How collective investment schemes work in emerging markets, 2<sup>nd</sup> edition.

#### ARTICLES AND JOURNALS

6. Capital markets journals volumes 6- 9 July to September 2005 page 14 <u>'Gary's Columns.'</u>

### **ONLINE RESOURCES**

7. <u>www.mfmag.com</u> Online mutual fund magazine; A family of tools for researching and evaluation of unit trusts

8. www.mfea.com A plethora of helpful information

9. <u>www.auf.org.za</u> Nicholas Biekpe's online research report on regionalization of African capital markets.

10.<u>www.africanalliance.com</u> African Alliance website includes Ugandan subsidiary.

11.<u>www.academyfm.co.za</u> An African financial market scholar's online resource.