Public Participation Strategy in Uganda
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Executive Summary

After reviewing the public participation options along with interviewing numerous financial intermediaries it is recommended that the optimum strategy to secure public participation in the privatization of Uganda's assets would be the floatation of stock rather than Unit Trusts or ESOPs.

This decision was driven by the considerations of: (i) creating an opportunity for public participation in ownership of the national assets; (ii) developing a viable capital markets through the immediate listing of privatized companies; (iii) promoting private sector development through lower debt and equity costs; (iv) further an efficient financial services industry; (v) marketing a well orchestrated and transparent program; (vi) advancing better corporate governance; and (vii) executing the floatation by conforming to international standards of disclosure.

The options considered were Unit Trusts, ESOPs and public floatation. Unit Trusts were dismissed as a divestiture vehicle. A trust, by its very nature, should follow an established market as Unit Trusts are investment vehicles in listed securities. Also, the trust, in a new stock market, would not offer the diversification promised. ESOPs are a viable instrument for participation. An ESOP offers incentive for employees and management that helps preserve the value of a company. For this reason it is recommended that ESOPs be an integral part of the privatization process; not as a vehicle of public ownership, but as one of employee participation and incentive. Of all the options the listing and sale of shares in a public flotation best meet the needs of government for public participation while creating a vehicle for the future funding of the country's growth and prosperity.

There is an immediate need for these listings for the following reasons: (i) emerging markets are currently vulnerable due to investor's concerns of stability in the Asian markets; (ii) there is increasing competition from the regional stock exchanges that could dilute or arrest the formation of the Ugandan Stock Exchange; (iii) because of the long delay in the listings Uganda is losing credibility in the financial world; (iv) national growth is dependent on a domestic equity market to mobilize investment and lower financial costs; and (v) foreign direct investment will shy away from any country without a stock market exit for their investment.

Initial public participation will be difficult as there is no tradition of share ownership and very little discretionary income in the retail market. The capacity of the retail market is untested in stock offerings. There is also lack of experience and sophistication at the institutional level. Most stocks will not pay dividends and many citizens will not be able to either grasp or accept this lack of current return on their investment. The civil strife in the North and poor communication will hamper distribution in the more remote areas.

In order to overcome these difficulties the Privatization Unit must mobilize in able to focus on the structuring of the public offerings. This will entail using an experienced merchant banker as an advisor to a unit dedicated solely to public participation. This unit would engage the merchant bankers and work in concert with the Team leaders in structuring the negotiated sale to a strategic buyer while positioning the company for public listings. The selection of the merchant banker should be a formal process with a weighted judging system addressing the particular needs in each specific company. A list prioritizing the companies for public participation should be prepared and the flotation of these companies should be clustered in a regular time table to ensure market momentum.

The credentials for a merchant bank should be as follows: (i) a proven track record of successful floatation in sub-Saharan Africa; (ii) quality of professional staff dedicated to the listing; (iii) the form of underwriting commitment (whether a best efforts or firm commitment); (iv) the ability to form a syndicate with local broker-dealers; (v) international placing capabilities; (vi) strong research capabilities; (vii) commitment to secondary market support; and (viii) willingness to accept accountability in the underwriting agreement.

Objectives

The strategy for the public participation of those companies being privatized by the Privatization Unit is predicated on six basic objectives:

First, that the initial stage of development of a capital market strategy should be driven by the need to include the Ugandan public in the financial benefits of privatization by ensuring the widest possible participation. Uganda has its own character and any public participation strategy must recognize those characteristics and be based in the reality of Uganda.

Second, it is imperative that the country develop its capital markets immediately through the listing of the companies being privatized. The process should begin at once with a timetable that would have the first issue hitting the market by the 1st quarter of 1998 at the latest. The timetable should cluster as many of the listings in as short a period of time as possible in order to gain and maintain market momentum.

Third, any floatation program should have a secondary focus of building local capacity in the financial service industry.

Fourth, the program has to be both transparent and well orchestrated to ensure that it is well received by both the Ugandan public and international investors and thereby, gaining momentum from the first issue.

Fifth, the public listing should help in introducing better corporate governance of the companies listed through the disclosure of operations required by public regulations.

Finally, the listing should conform to international standards of disclosure. In order to establish credibility, consistency and transparency all issues brought to market should be under recognized laws and regulations to ensure that investors are comfortable with the market.

An efficient capital market is not a panacea. A capital market is a means to an end rather than the end in itself. It is a path to economic growth and prosperity through: (i) the introduction of competitiveness through improved efficiencies and performance, (ii) improving the quality of corporate governance, and (iii) lowering financial costs of both debt and equity.

Options

There were several options under consideration for bringing about public participation. Each option has its own reason for attention, but for reasons discussed below only floatation and ESOPs truly meet the needs of the Government to ensure public participation and raise revenues.

1. Unit Trusts

Unit Trusts have been proposed as a vehicle for public participation. The mechanics of the proposal would have the government transfer certain percentages of privatized companies into a trust and then sell the trust units to the public. The argument for Unit Trusts is principally that a trust offers the protection of diversity to an unsophisticated public.

Unit Trusts do serve an important role in any capital markets. However, they are not an instrument for ensuring widespread public participation in nascent capital markets.

First, a Unit Trust is an investment vehicle that usually follows an established capital market investing its funds in listed securities. In order for the trust to have any value the stocks of the privatized companies still have to be listed. The role of a trust is to allow a professional manager to invest in a variety of stocks under specific guidelines and parameters outlined in its prospectus. It is not appropriate to just dedicate large blocks of companies being privatized into a pool and present that pool as a professionally managed diversified portfolio.

Second, a trust removes liquidity from the market by concentrating large blocks of stock into the trust. Also, a thinly traded stock with large ownership concentrations is open to manipulation, at the expense of the public.

Third, as proposed the government would transfer shareholdings of companies to the trust and the trust would sell the units to the public for the government. The proposal is vague on exactly where the money raised goes. The funds are either passed on to the government that would leave the trust undercapitalized or the proceeds remain with the trust. In the latter scenario the government does not realize any revenue from the sale of its assets. In the former a trust without capital is unable to buy shares in the market and the primary

need of this market is to provide liquidity for the Ugandan citizens that requires a demand side of the market.
Finally the trust's ability to provide a diversified portfolio is suspect. Diversification is a matter of balancing a portfolio with stocks that are not correlated and demands a more professional approach than the beginning privatization program would provide.

2. ESOP

The second option is an Employee Stock Ownership Plan ("ESOP"). An ESOP is a tax-qualified retirement plan whose assets are invested primarily in employer stock. An ESOP trust is exempt from federal income tax, contributions to the ESOP are deductible from the employer/sponsor's taxable income and ESOP participants are not taxed on their benefits until the benefits are actually received by them.

ESOPs are usually easily financed as they are a tax favored financing vehicle. In the United States there is a 50% interest exclusion on the interest received by qualified lenders. The company sponsoring the ESOP can deduct (i) all of the interest payments on ESOP debt and (ii) principal payments in an amount up to 25% of aggregate compensation of all ESOP participants. The ESOP sponsor can deduct dividends paid in ESOP stock. From my understanding these tax advantages are not as pronounced in Uganda. Banks are prohibited from making loans collateralized with stock. The funding of an ESOP program is questionable.

Since the ESOP holds primarily employer stock and is prohibited from granting a security interest in any other assets, banks either lend to the company that sponsors the ESOP, which in turn lends to the ESOP, or directly to the ESOP, with a guarantee from the company.

The ESOP proposal calls for a carve out of shares to be dedicated to the employees. One option has the shares paid for with a loan. The second option has the mode of payment as a conversion of outstanding employee's claims on the company; i.e., back wages, unfunded pension or salary reductions.

ESOPs should play a role in privatization. Certainly, the second option of conversion of employee's outstanding claims is a viable strategy to: (i) strengthen the balance sheet through forgiveness of the liabilities and (ii) as incentive to employees. If this is an option in any upcoming privatization it should be incorporated into the listing structure.

The difficulty with an ESOP is that it is an investment vehicle that should be established by the company being privatized rather than used as an instrument of public participation. It is also a strategy that is subject to politics and accusations of favoritism. For this reason it is recommended to incorporate an ESOP into any participation structure if the employees are willing to exchange their claims against the company. If a conversion is not applicable then the PU could consider a guaranteed loan to the company. The third course would be to acknowledge and encourage the need for employee participation, but leave the ESOP to the company to complete at its discretion.

3. Equity Listing

Of all the considered options flotation of stock is the best solution for widespread participation by the public. The listing of companies offers the opportunity for public participation through the purchase of stock. Multiple listings develops a capital market that will help promote the growth of the private sector through raising equity and lower debt costs. The public ownership should also result in better corporate governance. It should be noted that both Unit Trusts and ESOPs should be encouraged, but not as the vehicles for initial public participation. It also has to be emphasized that there is an imperative need or the immediate flotation of stock for the following reasons:

- The floatation efforts by the PU are losing credibility with the government, the public and the investor community.

- With the problems in the Asian markets and currencies all emerging markets are presently vulnerable to international investors pulling back and focusing on established markets.

- The concept of regional markets is gaining support. Kenya and South Africa may begin to draw away private company listings as the alternative to any Ugandan Stock Exchange.

- National growth is dependent on a domestic stock exchange to mobilize investment by raising equity and to lower the cost of debt.

- Foreign direct investment requires an exit through a local stock exchange to revitalize investment in Uganda.

Equity Strategy

Public participation will have to be a positive experience from the beginning. The public not only has to become part of the divestiture process through ownership, but that participation should be rewarding. This fact demands that the shares not only be affordable to the average citizen, but that there be an up-front built in profit through a steep discount. All valuations should be conservative and excessive care given to the projections and risks published in the prospectus.

That discount can be debated and negotiated by the PU and the strategic buyer. It is a complicated issue. Too great a dilution and the investment community may balk at buying state assets. Yet, because there is not an established secondary market there is a need to build in an automatic demand side to the market through steep discounting at the initial offering. It is a balancing act. However, as the shares are the property of the Ugandan government the decision of what price should rest primarily with the government in consultation with the merchant bank and accounting firm.

Uganda

Uganda faces several problems at both the retail market level and the supporting distribution and secondary infrastructure:

- The investor market has no tradition of share ownership. Equity is an alien concept to any person not exposed to it.

- There is little discretionary income to invest in stock.

- The institutional investors have also not been exposed to equities and lack the sophistication and disposition to become players in the market. If the Ugandan exchange is to flourish it will be necessary for these substantial investors to become part of the process.

- Most importantly, the absorptive capacity of the retail market is uncertain. As there has not been any listing and the better know companies were sold to strategic investors the market is untested. Given the average discretionary income it can be reasonably assumed that the retail market is limited.

- The market infrastructure is inadequate. The local broker dealers do not have the proven experience nor the client base nor the distribution system to support an issue.

- Civil strife in the North and lack of communication facilities will make distribution difficult in these areas.

The problems facing any country without an established market infrastructure are daunting. The issuance of stock itself in an immature market, while not an easy task, is simple compared to the necessary secondary market support needed to maintain the viability of a stock exchange.

Public Participation

The timing of forming a stock exchange in any emerging market is becoming critical. With the present difficulties in Asia's stock exchanges the ripple effect in all emerging markets will damage new exchanges. International investors are becoming wary of emerging markets as the risk return equation is becoming skewed in favor of the more established markets in the United States and Europe.

Yet, with the Asian markets becoming more volatile there should be an increasing interest in African markets. In terms of competition there is one well-established exchange in South Africa, and developing exchanges in Kenya, Tanzania and Zimbabwe et al. These exchanges are campaigning for the regionalization of exchanges. The arguments for a regional exchange are convincing in that until Africa can generate enough local product the coordination and combining of all issues would be more efficiently handled by one centralized exchange.

From a parochial point of view this regional exchange would not be able to effectively distribute the privatization assets into the local market. Also in the future, a regional stock exchange would not meet the needs of local, mid-sized companies for growth equity. As most country's prosperity and growth come from the mid-sized companies a regional exchange would not facilitate Uganda's prosperity.

Many of the regional financial writers do not believe there is either the political will or the financial infrastructure to open a stock exchange and are discounting an Ugandan Stock Exchange for the next several years. This will add impetus to the argument for a regional stock exchange in Nairobi. A regional stock exchange will not meet the needs of the country for its own identity, nor will it allow the average citizen to participate in the privatization of the parastatals.

Uganda is at an important juncture of the establishment of its capital markets. Any country's national prosperity is basically dependent on attracting domestic and international capital as the necessary growth to bring prosperity cannot be financed by bank debt. First, debt is expensive especially in emerging markets. Bank borrowing in Uganda is in the range of 20% to 30%. These rates are onerous enough to stifle most growth. Second, operating income dedicated to the repayment of interest and to the amortization of debt is non-productive use of income. Equity does not ameliorate the need to give investors returns, but it does not siphon off badly needed income to help the company grow. Without an equity market no country can expect to sustain the growth necessary to improve the quality of life.

Also without an equity outlet Uganda's ability to attract Foreign Direct Investment will be severely limited. A foreign investor's first concern before making any investment is how the firm will exit that investment. Investors are driven by the need for returns on their investments and if there is no viable exit by a stock exchange then foreign direct investment necessary to revitalize the economy is questionable.

Privatization Unit Strategy

It is essential to begin a program that will accelerate the capital markets listing of the country's assets on the USE.

The first step would be to establish a special unit at the PU to concentrate on nothing other than bringing the companies to a listing. That has to be this unit's sole task. Without this single focus any listing effort will lose continuity and momentum. The coordination of this group and the Team Leaders will also enhance the negotiated sale to a strategic partner. It is recommended that the PU hire an experienced merchant banker to advise the unit. This recommendation is driven by the fact that there is no experience in the PU with a public floatation and an advisor would bring an expertise and confidence to the program. As important an experience advisor would help the PU to become more comfortable with taking companies public and establishing a capital markets. Also, the transactions would be accelerated by the use of an outside advisor as an advisor would focus exclusively on bringing the equity to market.

The unit should work with the Team Leaders in a parallel process. As the team leaders begin to negotiate for the sale of a company to strategic buyers the listing team can begin the negotiations with a merchant bank for the public listing. If the two teams work in concert the sum of the whole will be greater than the two parts. The merchant banker can contribute to the sale negotiations with its own expertise and help structure a transaction that will maximize the value received by the country while at the same time begin to both market the company to the international investors and to position the company for a expeditious sale to the Ugandan public.

The prioritizing of the companies for sale has to be a part of the process. Early sales have to succeed for a capital market program to gain momentum. This suggests listing the best candidates first. Ugandan Grain Milling Company would be the logical first candidate, followed by the Sheraton. Much of this prioritizing is driven by the status of the negotiated sale, but the recommendation is to list the more successful companies first to instill quality immediately into the market.

After the prioritizing of the companies a strict timetable should be set. This timetable should be constructed with steps of accomplishments to a successful listing. This timetable would address both the listing of the companies and the steps to achieve that listing. Any negotiations with a merchant bank should have this timetable incorporated into the contract with penalties for nonperformance. If there is one lesson to be learned by the poor performance of Barclays Bank in the listing of UGMA it is that there was no accountability built into the agreement.

The timetable should be constructed with an overall plan to cluster the listing of the companies. It is important to maintain momentum throughout by the introduction of new listings into the market on a regular basis. Here not only should the Government ensure that its parastatals are brought to market on a consistent basis, but it should also encourage the listing of privately held companies onto the USE.

Merchant Banker Criteria

The selection of a merchant bank to assist in the listing of privatized companies should be a formalized process. A weighted matrix would probably serve as the primary assessment of which bank would perform best. The following variables would be assigned scores, in a relative order of importance. This allows the PU to create a standard against which all proposals will be evaluated. The criteria is as follows:

- Any merchant bank considered should have a proven track record in floatation in sub-Saharan Africa. The bank should provide references and discuss the problems it encountered in the process and its solutions.

- The bank should provide a list of professionals it intends to dedicate to the project. The list should include that person's CV and role in the listing.

- The form of commitment is important. A firm commitment should weigh much more in favor of the bank than a best effort.

- There should be a commitment to form a syndicate with local broker-dealers. This will probably not be much of an issue as the distribution ability rests with the local banks.

- There will have to be an international placing capability and like the proven track record the merchant banker will have to articulate the international network and give examples of past placements.

- The merchant banker should have strong research capabilities and agree to ongoing presentations to investors.

- Another issue is the bank's assurance of secondary market support. If the banker does not have a presence in this market that commitment will be hard to elicit, but a larger institution may be encouraged to either form a joint venture with a local firm or establish its own presence in Uganda.

- Finally, it is important that the merchant bank accept accountability in the letter of intent with either fees tied to on time performance or penalty clauses for nonperformance.

Floatation Schedule

Underwriting equity securities is the process of a broker-dealer bringing a new issue to market in a primary distribution. It is the issuer's responsibility to comply with all regulations. The fundamentals of underwriting do not change. It is a process that has been established to prevent fraud, secure consistency and ensure transparency. The keys to any successful capital markets are the procedures and their enforcement. Uganda has its own floatation rules that are presently being revised. For this reason I am presenting the procedures as they are followed elsewhere as a template to better understand the process.

Step 1. The filing of a registration statement is the usual first step to an offering. The registration statement must provide full disclosure about the issuer. This includes complete audited financial statements; information concerning the history of the issuer and its officers, directors, and insiders, any material contracts, lawsuits and the intended use of the proceeds of the offering. Presently, the Capital Markets Authority (the "CMA") does not expect a registration statement and accepts the prospectus as a surrogate.

Usually, the issuer (the PU) will have negotiated an agreement with the merchant banker to market the new issue to the public. A copy of this agreement, known as a letter of intent, should be filed with the registration statement.

Step 2. The letter of intent outlines the commitment of the merchant banker at the time of registration is filed. A final underwriting agreement will be signed just prior to going to market. This underwriting agreement can either be a best effort or firm commitment.

In a best effort agreement, the merchant banker act as the agent for the issuer. When the offering is closed, any unsold securities are returned to the issuer, which treats them as authorized, unissued shares. There are two variations of best efforts.

(1.) All-or-none offering, in which all sales are subject to the entire offering being sold. The proceeds are placed in escrow until all shares are sold. If the offering is not fully subscribed the investor's funds are returned, and the offering is abandoned as unsuccessful.

(2.) Mini-maxi offering, in which the first portion of the offering is All-or-none. Once the escrow requirements are met, the rest of the sales are best efforts.

In a firm commitment the banker acts as a principal and buys the whole issue and then resells it to the public. If the merchant bank cannot sell the all of the offering then he keeps the unsold equity in his own inventory. Usually, to hedge this inventory risk the underwriter will join with other broker-dealers to join a syndicate. Each broker-dealer commits to sell a certain amount of shares in the offering and is liable for those shares.

Step 3. A syndicate is formed much like a special purpose partnership. Its one purpose is defined by the selling of the offering. One member of the syndicate is the manager of the syndicate for the other members. This manager has a fiduciary responsibility to the issuer and to the other syndicate members. Liabilities and profits are determined by each member's agreed upon percentage

Compensation to the underwriters may take the form of a spread or the difference between the public offering price and the proceeds to the issuer.

Step 4. The CMA will review the registration to ensure that the full disclosure of all information about the issuer is provided. A prospectus, or summary of the registration statement, is provided to each purchaser of the offering before the purchase transaction is completed.

There is a registration period from the date of filing to the date of issue in which the CMA reviews the registration for disclosure, not merit. The issue of merit is left to the individual investor to judge. The review is to prevent fraud through misrepresentation or incomplete disclosure.

Part of the process should entail the registration statement being reviewed for fairness of the underwriter's compensation.

Step 5. Promotion of the issue during the registration period is limited to the distribution of a red herring and a tombstone. A red herring is a preliminary prospectus prepared by the issuer, which summarizes the registration statement. It is unlikely that a red herring is necessary in this market. A tombstone will suffice to generate interest in the issue. A tombstone is a newspaper advertisement that identifies the issue and issuer; provide some factual information about the issuer and the name and address of the contact for a red herring.

The red herring and tombstone are used to gather indications of interest only. Verbal solicitations, but not sales, are permitted.

Sales are not allowed during this time (the cooling off period) and the issuer, underwriter and attorneys use this time to review the company through a due diligence process in order to ensure that everything in the registration statement is true.

Step 6. Marketing of the new issue is accomplished through the distribution network of the syndication broker-dealers. In an established market relationships at both the institutions and the retail level have been established over time and it is to this market of investor that the prospectus is shown. As Uganda does not operate with an established market the distribution system will consist primarily of bank clients identified by saving accounts.

As noted above the prospectus contains all of the pertinent information: the final offering price; underwriting spread and the proceeds to the issuer; the use of proceeds, audited financial statements; legal opinions; business history and the industry; and risks.

Step 7. In many instances to facilitate the marketing of the offering the syndicate will agree to stabilize the issue over a period of time. This stabilization is accomplished by having the lead manager quote a bid during the offering period in case the earlier purchases want to sell. The bid my not exceed the public offering price. Only one member may stabilize and at a price no higher than the last sale price. During stabilization, a merchant banker may not solicit orders for execution in the open market; to do so could manipulate the market price of the security. Only unsolicited customer orders in which the broker dealer acts as agent are permitted.

The issue of stabilization is important as a major weakness in the Ugandan market is the lack of a support infrastructure. Barclays Bank has not committed to any stabilization nor is it committed to become a market maker. The PU should consider this aftermarket support by the merchant bank an important point of negotiation.

It is also crucial that there are assurance for specialists. The specialist is an exchange member who has an agreement with the exchange to maintain an orderly market in those securities in which it specializes. The specialist buys and sells for his own account as well as acting as agent for others. In order to maintain an orderly market the firm acts counter to the market. A specialist will buy when others are selling and vice versa.

To maintain a fair and orderly market, the specialist is required to act for his own account if he perceives or anticipates a lack of price continuity, lack of depth or disparity between supply and demand.

The specialist arranges to buy and sell orders at the opening f trading to orchestrate a balanced opening price. This practice will often cause the opening price of a security to be different from the closing price on the previous day.

A specialist has to qualify with the board of exchange. The firm must be capitalized well enough to maintain a 5,000 share position in each security he specializes. Most firms specialize in different companies across different industries to spread the risk of market decline in that particular stock. There should be at least three specialist in each listed issue. At this stage in the market's development a specialist in a stock is unlikely, but there should be some after market support by market makers.

Along with the specialists the USE should encourage market makers in each issue. A market maker is a firm that maintains an inventory position in one or more securities and publishes the quotations to other securities firms. The quotations are prices at which it is willing to trade with other firms. The quotations are referred to as interdealer quotes. Usually one or more traders are assigned to manage and provide quotations on specific securities in the firm's inventory. Unlike the specialist the trader's purpose is to make a profit and not to ensure an orderly market.

The market maker is required to provide quotations that are reasonably related to the prevailing market. The firm may not make quotations to create the false appearance of trading activity or to quote at prices high enough to support an inflated offering price.

In order to determine the fairness of the spread between the bid and asked prices, the market maker may take the financial condition of the issuer; the size of the issue; the trading activity in the issue; and the secondary market conditions into consideration.

As part of the negotiation with the merchant banker it should commit to form a syndicate with local merchant banks several of which agree to the role of market maker. In the discussions with the Merchant Bankers Association several of the banks were amiable to becoming market makers. As already noted this role of market makers should be encouraged by both the PU and the CMA.

Strategy for Public Participation

The basis for the individual company strategies is to guarantee that all stocks listed are both appropriate and will bring benefits to the public shareholders. This is an extension of the proposition that initial public participation has to be a positive experience for the citizens of Uganda.

The crucial variable is whether: the company has the ability to prosper in a more competitive market. This would entail that those companies first brought to market are the stronger and better managed firms that will act as a beacon for future investment. The process has to build confidence in the system. It is also important that the first companies taken public do not absorb a great deal of the public savings as the strategy to cluster several companies will demand discretionary savings for investment and a large offering would deplete these funds.

There was not a great deal of information to base a schedule for public listings, but after interviewing the Team Leaders I would recommend the following timetable for those companies that were identified as prospects for public participation.

Uganda Grain Milling Company

It has already been agreed with Barclays Bank that UGMC will be launched in the middle of March. As this company has been in preparation for a floatation for over two years and the market has been expecting the listing this obviously should be the first public listing.

Apollo Hotel Corporation Sheraton

With the sale of the hotel imminent and the company profitable and the public listing likely to go out at approximately $5 to 6 million Apollo is the next likely candidate. It should be a good investment as the strategic buyer will bring both technical expertise and additional funds to upgrade the property. Apollo therefore meets the criteria of a well managed, profitable company that will not soak up a great deal of discretionary investment money.

National Insurance Corporation

I would recommend the National Insurance Corporation as the third candidate as it is a well-managed company with a good reputation; rich in assets; and public share value of for the 30% of approximately $3 million. Again NIC is an appropriate investment as it is supposedly well managed and the listing would not demand a large amount of the public's capital.

National Housing Construction Corporation

This is the next logical candidate given its better name and reputation by the public, but the company is too large to be floated in its entirety. Here the strategy would be to break up the company into more manageable units and float the better divisions piecemeal. This strategy will be time consuming and probably subject to the political pressures. However, there is a substantial number of listings to make the effort worthwhile.

Dairy Corporation

The Dairy Corporation should wait for the law carving out its regulatory authority to be passed; the balance sheet to be cleaned up; and a capable strategic investor to be brought on board before any public listing. The Dairy Corporation is a natural candidate for a cooperative of the dairy farmers. It is a possibility that the PU may want to consider, although a sale limited to farmers may not be a wide enough market to be successful.

Uganda Commercial Bank

Presently, the Bank is not ready to take public. While it is an institution recognized throughout Uganda it is not strong enough to meet the first test of being an appropriate investment for the public. Given its role as a lender of last resort and poor capitalization the bank is probably at least two years from being healthy enough to float on the public market with confidence.

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