



THE REPUBLIC OF UGANDA

UGANDA'S CAPITAL MARKETS

DEVELOPMENT MASTER PLAN

2016/17 – 2026/27



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FOREWORD



The Government has demonstrated commitment to deepening and broadening the financial sector through various initiatives including establishing the Capital Markets Authority in 1996 with a mandate to develop and regulate capital markets in Uganda, as well as facilitating the establishment of the Uganda Securities Exchange (USE) in 1998. This was in recognition of the important role of capital markets as a source of cost effective long term finance for both government and the private sector.

The launch of the Capital Markets Development Master Plan marks a significant milestone in the history of the Ugandan capital markets. It marks the first comprehensive industry blueprint formulated in collaboration with all stakeholders to chart the development of the capital market for the next ten years. The development of this master plan followed wide consultations with internal and external stakeholders and benchmarking against other jurisdictions. The master plan provides a road map towards strengthening Uganda's capital markets to ensure they support socio-economic transformation as envisioned in the national development blueprint, Vision 2040.

The need for an alternative source of long term capital has never been this critical as Uganda continues with the socio-economic transformation journey. Efficient, well-regulated capital markets that facilitate the maximization of long term capital through depth and breadth are a keystone. Strong market intermediaries are also important in seeing this come to fruition.

The growth and stability of Uganda's capital markets is expected to play a major role in facilitating investment and growth opportunities. Capital markets are expected to partly fund key flagship projects under Vision 2040 by mobilizing both domestic and international resources. In order to enhance flow from international investors, the master plan seeks to position Uganda's capital markets within the frontier market category of the Morgan Stanley Composite Index for Equities and Bonds respectively as a way of attracting more international capital.

Unlike other markets in emerging and developed economies, capital markets development in Uganda has been slow due to various challenges. Notwithstanding the capital markets' role in mobilizing funds and facilitating economic development in the past, challenges abound such as: a limited institutional investor base; market infrastructure challenges; a narrow retail investor base; a narrow product offering; high transaction costs; and low investor awareness. The master plan seeks to address these challenges and position capital markets to achieve national development goals.

The master plan makes recommendations to address the aforementioned bottlenecks. The proposed recommendations can be summarized under the following themes: structural reforms; widening of the issuer base; widening of the investor base; improvement

in market infrastructure; and raising intermediation standards to create an attractive environment for potential issuers of securities, domestic investors and international investors. This attractive proposition will in turn stimulate a much desired thriving and robust market with many issuers, investors and intermediaries. I am pleased to note that this Plan has made recommendations aimed at addressing bottlenecks facing the industry to improve the supply of and access to patient and long term capital to both government and the private sector in Uganda, and improving the choice of investments for both retail and institutional investors in Uganda and internationally. This master plan will ensure that the capital market is well positioned to support national economic growth.

Finally, I would like to sincerely thank: the Financial Sector Deepening-Africa; Capital Markets Authority; the Steering Committee; and all other stakeholders who have provided support and input towards the successful development of this master plan. The implementation of this plan hinges on support from different parties hence the need for a concerted, multi-sectoral effort to ensure the realization of the vision and goals set out in the plan. As the key policy body for this document, the Ministry of Finance, Planning and Economic Development will ensure that the recommendations are given priority by the various implementing agencies and effective monitoring will be carried out during the period. The Ministry further commits to support the growth of our capital markets and I therefore implore all Ugandans to embrace this development and actively participate in this growth.

I now invite you to read the details of the ten year capital markets development masterplan in the following pages.

For God and My Country!



Hon. Matia Kasaija

Minister of Finance, Planning and Economic Development

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EXECUTIVE SUMMARY

Background of Uganda's capital markets

The capital market is like any other market. Its main components are sellers and buyers. In the capital market, the sellers are those that wish to raise money, known as issuers. Issuers are typically governments and companies that wish to sell shares or bonds. The buyers, also known as investors, are those who have savings. These may be individuals, or pension, insurance or collective investment funds which represent the savings of individuals – who want to invest it and who are prepared to accept higher risk in order to achieve higher returns than those they can get from other alternative investments. All the other entities in the capital market, i.e. intermediaries such as brokers or investment banks, fund managers, stock exchanges and central depositories, facilitate the transactions between these two parties by providing services or systems.

Capital markets development in Uganda began with the enactment of the Capital Markets Authority (CMA) Act Cap 84 and the establishment of the CMA in 1996 as a semi-autonomous body responsible for promoting, developing and regulating capital markets in Uganda, with the overall objective of investor protection and market efficiency. CMA is governed by a board constituted in accordance with the CMA Act (as amended) and the board may seek policy guidance from the Minister of Finance, Planning and Economic Development.

Since establishment, the Authority has undertaken various initiatives to develop capital markets in Uganda including developing legal and regulatory frameworks for issuance of securities and investments including collective investment schemes; public education; , and development of frameworks for cross border securities markets activities.

In 1997, the Uganda Securities Exchange (USE) was established. The first bonds were listed on the USE in 1998, and the first shares in 2000. As at the end of 2016, there were sixteen companies listed on the USE, eight of which are primary domestic listings and eight are cross listed from the Nairobi Stock Exchange. Domestic market capitalisation was Uganda shillings 4.31 trillion which comprised 4.6% of the Gross Domestic Product.

Development of the Master Plan

Prior to the development of this master plan, a market assessment was undertaken by the consultants - Cadogan Financial Limited, to identify progress made in Uganda's capital markets, their present nature and scale, and the issues therein. An initial draft of the plan was prepared by the consultants based on the market assessment report findings. Thereafter, various stakeholders contributed to the development of the master plan through interviews and stakeholder meetings. This led to the development of the final draft in 2016. The documentation reviewed and stakeholders consulted during the development of this Plan are laid out in Appendix 1.

The master plan delineates why capital markets development matters for Uganda, the recommendations for change, and actions for implementation. It heavily draws from the experience of Malaysia, a country that has successfully implemented two capital markets master plans to-date.

Factors in development of successful capital markets include:

1. Stable macroeconomic policies – this provides predictability to both issuers and investors which makes them more confident that committing to the market will be rewarding in the medium to long term
2. A strong legal and institutional framework – this makes issuers and investors more confident that they are protected from legal risk and able to undertake tax effectively; this includes a coherent fiscal policy that ensures that incentivisation is balanced and appropriate to meeting the economy's needs
3. Financial information – this makes issuers and investors more confident that they can get sufficient information to make an informed judgement and that their money will be protected from operational risk
4. Market infrastructure - this facilitates transactions in securities as well as reducing risks associated with the transactions by ensuring secure methods of ownership, settlement and transfer of securities
5. Scale – markets that remain small due to lack of one or more of the four factors above will not provide the benefits of cost efficiency provided by larger markets to both issuers and investors and so may remain less attractive than larger markets which can offer both greater liquidity (that is, the ability to buy and sell securities easily and quickly) and wider choice as well as economies of scale

The Plan sets out a ten-year framework consisting of structural reforms and 27 general recommendations. In addition to regular monitoring of progress by the Steering Committee, there are checkpoints after two, five and ten years to evaluate progress and make adjustments where necessary. All recommendations are assigned to specific institutions that will be responsible for their delivery and will be responsible for putting in place such support as is necessary to implement the recommendations and actions concerned.

Mission and Objectives of the Master Plan

The mission for Uganda's capital markets is to improve access to, and the supply of long term finance to the public and the private sector in Uganda. The primary objective is to position Uganda's capital markets within the frontier market category of the Morgan Stanley Composite Index for Equities and Bonds respectively as a way of attracting more international capital to meet the financing needs for both the government and private sectors.

The other objectives of the plan are to:

1. Facilitate the deepening and broadening of securities markets

2. Improve diversity of investments
3. Improve efficiency in securities market regulation
4. Facilitate the development of market intermediation services
5. Maximise supply of long term finance

The outcome will be a capital market that is better able to more meaningfully contribute to economic growth.

Key Constraints to Capital Markets Development in Uganda

- The legal and regulatory framework for capital markets contains duplicative procedures and lacks flexibility to allow for innovation and product development
- There is also a limited supply of securities or few issuers due to several factors including onerous issuance requirements, a nascent private sector dominated by family controlled companies
- Constraints to public sector issuance of securities including the heavy reliance on concessional loans, financial management and reporting challenges in public sector agencies and local governments
- The range of investors in Uganda is narrow due to a heavily retail - oriented market and presence of few institutional investors. The narrow institutional investor base is attributed to the slow progress of implementing pension reforms, low insurance penetration, and disincentives to the development of institutional savings and investment vehicles.
- The market is supported by a small pool of capital markets professionals (intermediaries).
- Limited information available due to poor enforcement of financial reporting standards for companies as prescribed in the Companies Act.
- Adequate but duplicative infrastructure comprising of Bank of Uganda (BOU) central securities depository and the two individual stock exchange depositories needs to be streamlined.

Summary of major reforms required to enable capital markets effectively contribute to economic growth

1. **Government leadership.** Government should make a long term policy commitment to do everything necessary to provide a conducive framework for capital markets development. The Ministry of Finance, Planning and Economic Development (MoFPED) should in consultation with CMA and Uganda Revenue Authority review fiscal barriers to capital markets development and in particular, fiscal barriers to savings mobilisation, the tax treatment of investment vehicles such as special purpose vehicles, funds structured as corporate entities, real estate investment trusts and securitisation transactions. In addition, there is need to review the structure for taxation of pension in Uganda and the implications for capital markets development.

2. Expanding issuance and enabling more capital raising. Various measures should be adopted to improve the supply of securities including building the capacity of professionals to advise issuers and structure products for raising capital and investment, implementing government bond market reforms as a precursor to the development of corporate bond markets, providing a tax amnesty for private sector companies that have to restate their financials in order to list on a stock exchange and implementing the USE Growth Enterprise Market Segment to enable it function as a gateway to public markets. Wide ranging reforms need to be implemented to enable municipal, government agency and infrastructure financing through capital markets.
3. Widening the investor base and investor choice. Stable and well-functioning markets require a diversified investor base to provide the necessary capital inflows to improve liquidity. This will require wide ranging interventions to diversify the investor base such as pension reform and addressing barriers to investing through investment vehicles.
4. Making market infrastructure more cost-effective. Revisit the issue of market infrastructure and explore interim measures such as linking existing systems. Long term measures should be guided by efficiency, cost effective and best practice standards on infrastructure for securities markets
5. Improving the legal, regulatory and supervisory environment. There is need to review and amend the legal and regulatory framework for capital markets to ease issuance of securities, eliminate duplicative procedures and allow for innovation and product development
6. Improve financial reporting by enforcing financial reporting standards for companies. In addition, adopt measures to improve capacity for financial reporting in both the public and private sector

Recommendations and Actions

The plan sets out 27 recommendations and a series of 99 actions to aid in implementation of the above mentioned reforms. Different government Ministries, Departments and Agencies will have various roles to play in the implementation of the above reforms. The proposed recommendations and actions seek to achieve the following:

- Broaden the range and number of equity and debt issuers seeking capital
- Widen the investor base and investor choice
- Make market infrastructure more cost efficient
- Enhance the quality of intermediation
- Improve the legal, regulatory and supervisory environment

The implementation of the Master Plan will be led by a Capital Markets Steering Committee chaired by the Deputy Permanent Secretary/ Secretary to the Treasury, MoFPED. Other members of the committee will be; the Chairperson of the USE, the Deputy Governor of BOU, the Chairperson of the National Planning Authority, the Chairperson of the CMA,

a representative from the Private Sector (Presidential Investors Round Table and / or Export Promotions Board), and the Managing Director of Stanbic Bank (a listed company in Uganda). These will provide a subtle representation of the different players in Uganda's capital markets industry.

The Capital Markets Steering Committee will review progress at the end of each year from the adoption of the Plan, publishing a report on progress made against each of the recommendations and actions set out in the Plan and hold an annual conference which will both review progress and create awareness of capital markets development. The Committee will be supported by a Secretariat based at the CMA

ACRONYMS

BoU	Bank of Uganda
CMA	Capital Markets Authority
CMDSC	Capital Markets Development Steering Committee
FSDA	Financial Sector Deepening Africa
FSDRP	Financial Sector Development and Regionalization Project
GDP	Gross Domestic Product
GEMS	Growth Enterprise Market Segment
IRAU	Insurance Regulatory Authority of Uganda
IOSCO	International Organization of Securities Commissions
MoFPED	Ministry of Finance, Planning and Economic Development
MoJCA	Ministry of Justice and Constitutional Affairs
MoLG	Ministry of Local Government
NSSF	National Social Security Fund
SCD	Securities Central Depository
SPV	Special Purpose Vehicle
URBRA	Uganda Retirement Benefits Regulatory Authority
URSB	Uganda Registration Services Bureau
USE	Uganda Securities Exchange

1 : BACKGROUND

BACKGROUND

The Capital Markets Development Master Plan was developed with support from Financial Sector Deepening Africa (FSDA). Cadogan Financial Limited and associates carried out the market assessment that informed the Master Plan which was developed through a wide consultative process.

The Plan provides clear direction for the development of Uganda's capital markets industry so that it is well positioned to improve the supply of long term finance to both government and the private sector, and to improve the choice of investments for both retail and institutional investors as envisaged in the Second National Development Plan 2015/16 – 2019/20 and Uganda's Vision 2040. An increase in economic growth from 5.2% in 2012/13 to an average 6.2 per cent is envisaged in the Second National Development Plan, which also notes:

“Overall, Uganda's capital markets are characterised by under capitalisation and limited investment opportunities... equity markets are poorly developed and only large and well established firms can realistically raise finance in equity markets. As a result, most firms seeking finance for investment on the domestic market have to rely on loan finance, for which the most important source is the banking system. In addition, there is limited knowledge and reach of capital markets; perceptions of lack of safety of capital markets; low number of listed entities; low public float of some listed entities; and laissez faire attitude and change aversion.”

The project of developing a master plan was launched in June 2015 and the initial market assessment which identified the progress made by Uganda's capital markets, their present nature and scale, and issues arising from this were undertaken in the same year. An initial draft of the Plan based on the market assessment report findings were reviewed with stakeholders in December 2015, and subsequent drafts reviewed by the CMA and various stakeholders throughout 2016.

1.1 Context to development of Uganda's capital markets

As noted above, the Second National Development Plan targets an increase in economic growth rate from 5.2% in 2012/13 to an average 6.3% in 2019/20 and 8.2 by 2040.

Rapidly growing economies need to be able to raise large amounts of financing using a whole range of different financing structures. In particular, growth in the industrial sector and the government's plans to improve infrastructure – estimated to require USD 11 billion by the International Monetary Fund will require higher levels of investment within an environment in which reduced concessionary/development partner funding is likely (27% GDP donor support 2010 to 5% 2040) and the cost of borrowing in foreign currency has been increasing.

Increasingly, domestic savings must provide the fundamental resources to support these developments in the light of declining aid inflows, and also of the need to reduce dependence on foreign currency borrowing. Therefore mobilising and deploying savings must be a key objective.

Also, governments and commercial enterprises must be able to access those savings in different ways not only by borrowing from banks, but also by issuing securities both privately and in public markets in an efficient and cost effective manner. The latter are the principal functions of a capital market. The purpose of the Plan is to determine what needs to be done to ensure that capital markets play a more central and significant role in financing Uganda's future growth.

2: WHY CAPITAL MARKETS DEVELOPMENT MATTERS

2: WHY CAPITAL MARKETS DEVELOPMENT MATTERS

The capital market is a specialist form of market. However, just like any other market, there are sellers as well as buyers. In the capital market, the sellers are those that wish to raise money, also known as *issuers*. This is done by the sale of instruments which have a life of longer than a year. These instruments may be shares representing a proportion of ownership of a company; or bonds representing borrowing by an entity at a stated rate of interest (hence the term 'fixed interest' or 'fixed income') over a stated period (a year or more. Shorter term lending is referred to as *bills* rather than *bonds*, and is done in the 'money market', rather than the 'capital market'). The buyers are those who have savings in form of cash for investment purposes. Buyers are also known as investors and these may be individuals, pension, insurance or collective investment funds which represent the savings of individuals who want to invest and are prepared to accept higher risk in order to achieve higher returns, compared to what they could get, for instance, from a bank.

The capital market is the place where these sellers (issuers) and buyers (investors) meet and transactions take place. All the other entities in the capital market such as brokers, investment banks, stock exchanges and central depositories, also known as intermediaries – facilitate the transactions between issuers and investors by providing services or systems, and therefore earn fees from so doing.

Without a capital market, the only places that capital can be raised are from banks or other lending institutions; or, on a smaller scale, from personal savings, family and friends or associates. These may be unable to provide either the scale or the longevity of finance needed, restricting the ability to raise the larger amounts of money for longer term investment needed for infrastructure-type investment, or to build new factories and production lines as envisaged in the Second National Development Plan; or they may find the level of risk entailed unacceptable.

Without a capital market, the only alternative that those with cash or savings to invest have, if they wish to get higher returns than a bank or similar institution would offer, is to invest in other assets such as real estate or livestock.

As a result, issuers' capacity to raise longer term or riskier finance may be limited while investors' ability to access a range of investments and their capacity to achieve higher returns through taking higher risk may be restricted. As a consequence, there will be low potential for development of the intermediaries and systems that facilitate these transactions.

This will potentially restrict Uganda's capacity to achieve the objectives of lower middle income status by 2017, and upper middle income status by 2032, as indicated in Vision 2040. It is noted that this implies an annual growth rate of 8.2%.

Continuing gaps in the provision of the long-term investment identified as necessary in the Second National Development Plan will keep Uganda's economic growth below potential. The lack or poor quality of infrastructure is a key driver of the high costs of doing

business and a severe impediment to higher sustained levels of economic diversification and growth in Uganda (and much of Africa). However, this infrastructure could be partly financed through capital markets, through the issuance of bonds by national and municipal governments, or by issuance of bonds or shares by companies to finance housing or mortgages, or business expansion; and by creation of specialist funds to invest in real estate or infrastructure. Most small to medium enterprises, potentially important drivers of growth and employment remain small, partly because they can only access short-term funding to finance their investment needs. Their long term financing needs could be partly provided by private equity or venture capital funds that invest in shares in such companies. This type of funding does not involve payment of interest or repayment of principal, unlike loans or bonds, and therefore is the most flexible form of finance for growing businesses.

Continuing limited development of institutional investors and dominance of a single domestic state-controlled pension scheme in Ugandan capital markets also limits the range of investors with different risk tolerances and time horizons willing to assume different risks, and therefore the level of capital available to fund infrastructure and enterprises. It also limits the variety of buyers of securities and may thus limit issuance capacity, and possibly increase the cost of such issuance. In turn, the lack of a variety of institutional investors also reduces investor choice for issuers..

2.1 Elements of a well-functioning capital market

Well-functioning capital markets are characterised by:

A diverse range of borrowers (issuers) with sustainable business models that have different risk profiles and time horizons that compete to attract investors' money and whose range and nature expands over time

A diverse range of investors that have different time horizons and risk tolerances, which evolves over time as markets become more sophisticated

A range of competitive and competent intermediaries that compete to facilitate transactions or provide advice or services to either borrowers or investors, such as investment management, investment banking and broking

Market infrastructure (exchanges, Over The Counter markets, central securities depositories, clearing and settlement) that facilitates transactions between investors and issuers that operates effectively and cost effectively and is appropriate to the nature of the market

Easy access to transparent, accurate and timely information and data about markets, transactions, issuers and potential issuers, investors and intermediaries

An adequate range of competent supporting and advisory service providers such as lawyers and accountants

A legal and regulatory framework governing markets, borrowers, investors, intermediaries and institutions that is clear and appropriate and enables innovation

A supervisory agency with the knowledge and skills to develop an appropriate legal and regulatory framework and apply it effectively

2.2 Master plans implemented in other countries – the case of Malaysia

Malaysia is used as a key reference point for emerging markets capital market development in this Plan because: It has created and applied two Capital Markets Master Plans, and therefore results can be examined. These targeted both creating a facilitative environment and taking a pro-active approach to mobilising capital

- It is regarded as an open, innovative and entrepreneurial market with good quality law, regulation and supervision
- It is a more developed emerging market of more substantial scale, but it has successfully overcome similar problems to those to be tackled in Uganda. It has successfully provided finance for instance for small and medium enterprises – and diversified investors and investment management
- Regional countries which could otherwise be used as examples broadly have the same issues to deal with as Uganda and have not been notably more successful in addressing those issues to date
- It is an object lesson in the focus, drive and wide-ranging effort that is needed to bring about change
- It also had a capital market dominated majorly by governmental investors whose assets were managed internally – the employees provident fund and the Permodalan Nasional Berhad, a state-sponsored unit trust

Malaysia's first Capital Market Master Plan issued in 2001 noted three key challenges, namely: meeting the needs of the growing economy – funding issuers; providing for consumers' investment and intermediation needs; and employment and knowledge needs, which parallel's Uganda's needs. The Capital Markets Master Plan made 152 recommendations of which 95% had been implemented by the end of 2010.

In the period 2000 – 2010 (Malaysia's first Capital Markets Master Plan covered this period), stock market capitalization rose from RM 444.4 billion to RM 1,275 billion (an annual compound growth rate of 11.1%). As a result, in 2010, Malaysia ranked 8th for provision of financing through local equity markets, 11th by number of listed companies per 10,000 people; 5th for stock market capitalisation and 24th for stock market turnover ratio in a survey based on 57 countries¹. A more detailed report on Malaysia's phenomenal capital markets growth, following the implementation of the first Capital Markets Master Plan is attached in the annex.

Uganda's Capital Market Development Master Plan could have a similar impact if both fundamental longer term reforms and shorter term improvements are made. Such commitment is vital if major change is to be achieved. In the case of Malaysia, an indication of high level commitment is that the Foreword to the second Capital Markets Plan is by the Prime Minister, who notes that:

"The Capital Market Masterplan 2 forms another vital contribution to the collective and coordinated efforts to invigorate the economy through expanding the role of the capital markets in financing the country's development"

¹Financial Sector Development Report 2010, World Economic Forum

3: CURRENT STATE OF UGANDA'S CAPITAL MARKET

3: CURRENT STATE OF UGANDA'S CAPITAL MARKET

Capital markets development in Uganda began with the passing of the Capital Markets Authority Act Cap 84 and the establishment of the CMA in 1996 as a semi-autonomous body responsible for promoting, developing and regulating capital markets in Uganda, with the overall objective of investor protection and market efficiency. CMA is governed by a board constituted in accordance with the CMA Act (as amended) and may from time to time seek guidance from the MoFPED.

Since establishment, the Authority has undertaken various initiatives to develop capital markets in Uganda. Notable among these was the development of legal and regulatory frameworks for issuance of securities, and investments such as collective investment schemes; public education; as well as development of frameworks for cross border securities markets activities.

The USE was set up in 1998. The first bond was listed in 1998 and the first shares in 2000. As at the end of 2016, there were sixteen companies listed on the USE, eight of which are primary domestic listings and eight are cross listed from the Nairobi Securities Exchange. Domestic market capitalisation was UGX 4.31 trillion, which comprised 4.6% of GDP.

Summary of statistics in Uganda's Capital Markets - as at December 2016

Domestic market capitalisation	UGX 4.31 trillion
Total funds under management	UGX 1.78 trillion
Total funds raised through corporate bond issuance	UGX 293.8 billion
Total funds raised through equity issuance (Primary)	UGX 543.12 billion
Total funds raised through equity issuance (Secondary)	UGX 378 billion
Unit trust Schemes	3
Stock exchanges	2
Central Securities Depositories	3
Licensed broker/dealers	11
Asset managers	7
Listed companies	16 (8 domestic, 8 cross-listed)
Investment advisers	7
Collective Investment Scheme managers	3
Trustees	2

Source: Capital Markets Authority

3.1 Factors hindering the growth of Uganda’s capital markets

The legal and regulatory framework for capital markets is not suitable to Uganda’s present needs due to onerous issuance requirements, duplicative procedures and lack of flexibility to allow for innovation and product development.

There is a limited supply of securities or few issuers due to several factors. These include a nascent private sector dominated by family controlled companies; most businesses prefer to remain private because of the reporting requirements and disclosures that are a prerequisite for listing; insufficient issuer education; slowing economic growth; and the costs of issuance are rather high for small cap issuers.

In addition, there are several constraints to public sector issuance of securities including the heavy reliance on concessional loans, financial management and reporting challenges in public sector agencies and local governments.

Only a narrow range of investors exist due to a heavily retail oriented market and presence of few institutional investors. The narrow domestic institutional investor base is attributed to the slow progress in implementing pension reforms, low insurance penetration and disincentives to the development of institutional savings and investment vehicles.

The small pool of market intermediaries is not in a position to make a major contribution to capital markets development.

Market infrastructure is adequate, but duplicative, comprising of the USE, the ALTX, the BOU Central Securities Depository (for government securities), the ALTX and USE Central Securities Depository.

Very limited information availability due to poor enforcement of financial reporting standards for companies as prescribed in the Companies Act. With the exception of regulated sectors such as banking, insurance, pensions and capital markets, most companies are not required and have no capacity to report in accordance with International Financial Reporting Standards.

3.2 Findings from the market assessment report

In addressing long-term financing, policy makers tend to focus on creating local stock exchanges rather than on deepening and broadening local markets for financing capital investment more generally. The former is, of course, part of the latter, but the focus on stock market development which is essentially the raising of capital through public offers of securities tends to limit the discussion to only one among several possible funding channels. Other routes, such as private placements, project bonds, joint ventures, real estate investment trusts, private equity, and venture capital, provide alternative channels that can under certain circumstances be more appropriate and less costly (in terms of overheads relating inter alia to the arrangement and issuance process). These funding instruments can be regarded as complementary to formal markets and can become important conduits towards future development of formal capital markets.

Moreover, properly channelled finance can help avert instability and incidents of crisis that are known to have severe effects on poverty. A more diverse financial system also tends to be more stable and better able to absorb shocks, providing a financial “spare

tyre” to firms in case of banking crises.

This Plan therefore takes a holistic and fundamental approach to financing capital investment, rather than focusing only on stock exchanges.

The essential findings of the market assessment report can be summarised as follows and are reviewed below under these headings:

1. **Issuers:** Greater volume and value of capital raising by both government and companies needs to be facilitated and encouraged for Uganda’s economic growth to be effectively financed, while fundamental reforms in accounting and registry are needed before substantially enhanced use of long term finance and capital markets can be achieved.
2. **Investors:** More needs to be done to create an environment that democratises savings, makes investment vehicles more viable and attractive, encourages a greater number and diversity of investment vehicles and investors to participate in the Ugandan market, and provides better information to investors. Investment opportunities need to be substantially expanded and made more attractive. Pension liberalisation should be undertaken to achieve substantially greater mobilisation of capital from investors. This would in turn diversify sources of long term finance for government and enterprise and make Ugandan capital markets more attractive to issuers and intermediaries.
3. **Infrastructure:** Improvements need to be made to the operation of capital markets so that they better meet the needs of issuers, investors, and market intermediaries. The unnecessary inefficiencies and costs created by the existence of two stock exchanges and three central securities depositories need to be tackled. In addition, the necessary steps needed to achieve Frontier Emerging Markets status have to be identified and taken up in order to make Uganda more attractive to foreign investors.
4. **Intermediaries:** The scale, quality and competence of market intermediaries needs to be improved so that they can better intermediate flows of capital between an increased number and variety of issuers and investors, and develop stronger businesses.
5. The legal, regulatory and supervisory framework needs to more effectively facilitate the raising of long term finance through investment vehicles. This will enable innovative approaches to capital raising and provide for the functioning of a modern capital market.

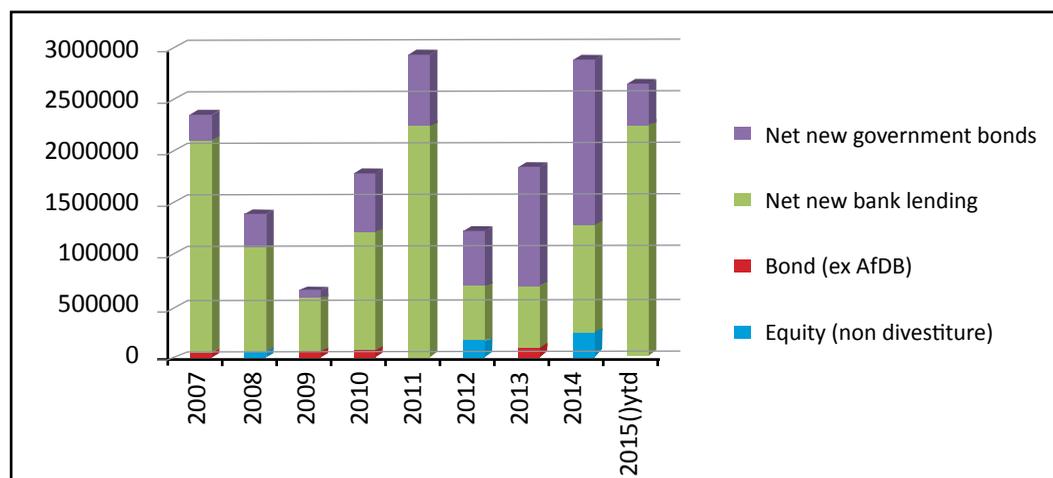
3.2.1 Issuers

In a well-functioning capital market, a diverse range of borrowers (issuers) with sustainable business models that have different risk profiles and time horizons compete to attract investors’ money. The range and nature of these issuers will expand over time.

The primary market, where issuers raise initial capital before becoming listed or traded on an exchange, is potentially a key provider of capital to both government and to enterprise. The graph below shows that primary markets in Uganda have made relatively little

contribution to the raising of capital, particularly with regard to raising capital for the private sector. The amounts raised by issuance of non-divestiture equity and bonds are small and the majority of finance is provided by bank loans.

Comparison of scale of capital markets and bank financing – UGX million



Source: Bank of Uganda, Uganda Securities Exchange

The reasons for this are many and varied, and are explored in more detail under the relevant category of issuance below – that is, bonds and equity.

3.2.1.1 Government debt market

The local currency government securities market in Uganda is relatively small with around UGX 11 trillion nominal value in issue as at the end of 2015. Government bonds in issue are only about 8% of GDP, the second highest proportion in the East African Community but a much smaller proportion compared to South Africa, Kenya and Nigeria.

There is a narrow investor base for government securities. Non-bank financial institutions hold nearly 50% of the stock of Treasury bonds (excluding those held by the Bank of Uganda, with the National Social Security Fund as the largest single holder with 35 – 40% of the stock). Banks hold about 35% of the stock and non-residents about 15%. The retail sector is able to access the auction on a non-competitive basis, despite the fact that its aggregate holdings are small.

In several respects, Uganda follows sound practice in the primary market. Although no annual financing plan is published, an annual bond calendar is published and Treasury bond (T-bond) auctions are held regularly every 28 days. Maturities of 2-, 3, 5, 10 and 15 years are sold; Treasury bill (T-bill) auctions are held every second week, with maturities usually of 91, 182 and 364 days and the Bank of Uganda is able to reopen issues to build up the market volumes of individual bonds. However, there are concerns from market participants that auction results are not announced speedily and equally to all in the market; that there is an insufficiently clear boundary between the role of the government as the issuer and of the Bank of Uganda as its agent, and that there is inadequate consultation between the market and the authorities.

Benchmark yield curve development is limited with many issues outstanding. There is a high number of bond issues resulting in fragmentation of the markets. Although the Bank of Uganda has reopened some bond issues, the portfolios remain fragmented with 45 issues outstanding in January 2015. Fragmenting issuances compromises the development of reliable and more liquid benchmark yield curves that could facilitate more accurate market pricing of other financial instruments, and effectively reduce debt-issuance costs.

Secondary markets are at a nascent stage of development, characterized by low liquidity and transparency. Although the primary dealers are required by the Bank of Uganda to publish quotes for benchmark bonds (for instance, on Reuters), in practice, few do so with any consistency. Two of the primary dealers account for almost all transactions. Some primary dealers do not even have a trading book, notwithstanding a requirement placed on by the current regulations. The primary dealers are often not able to make two-way quotes even in the benchmark bonds. Although short-selling is permitted, there is no clear legal framework enabling this and short-selling is not practical, given the lack of securities lending or modern horizontal repo.

Uganda introduced the primary dealer (PD) system in February 2003. At the time of developing the masterplan, there were six primary dealers who had privileged access to the auction, in the sense that all others had to submit their bids through a primary dealer. However, the primary dealers do not have access to the detail of any bids put through them (except those of their own clients), and characterize their role as that of a post office (for which they receive only a very small commission). For their part, non-banks and banks who are not primary dealers complain that the primary dealers may 'front run' their bids and even fail to submit them.

There is need to evaluate the relevance of the primary dealer system in the context of the level of market development in Uganda and reform it to better balance the rights and enforceable obligations of the primary dealers. There is also need to implement an appropriate market infrastructure, including electronic trading platforms, to facilitate better monitoring of the trading obligations of the primary dealers.

The money market (essentially T-bills - instruments of under a year's duration) is foundational in the development of the government bond market as it facilitates the recycling of liquidity in the market.

In June 2015, the East African Community through the Efficient Securities Markets Institutional Development program conducted a study on the development of the government securities markets in the region. The table below summarized the status of Uganda and priorities for market development for Uganda, in line with the vision adopted for the East African Community.

Uganda: Efficient Securities Markets Institutional Development bond market findings in the **Government debt market**

Required Standard	Current Position	Comments and Priorities
Primary Market		
Government Financing Plan	Main borrowing sources indicated.	
Regular Issuance	Issuance calendar is published yearly. Maturities are 2, 5, 10, 15 year bonds.	Debt Management Technical Committee meets on a monthly basis.
Competitive and Efficient Auctions	Bank of Uganda has appointed 6 primary dealers. Individuals and non-banks are obliged to channel their bids through primary dealers.	Primary dealers are pushing for incentives from Bank of Uganda (apart from the exclusivity as PDs and participation in the repo market). Some primary dealers not keeping a trading book (despite formal obligation). Not clear whether 6 primary dealers is sufficient to avoid risk of collusion. Concerns that auction results not promulgated speedily and equally to all in market.
Clarity between Ministry of Finance and Bank of Uganda objectives	Treasury bills and bonds issued for fiscal purposes.	Lack of sufficiently close working relationship between the Debt Management Office and Bank of Uganda; appears that Ministry of Finance does not fully “own” the calendar.
Building liquidity though the Primary Market	There is no coordinated marketing strategy incorporating all key players in the marketing of bonds and thereby build liquidity.	Liberalization of the Pension sector to widen investor base and increase liquidity is ongoing.
Secondary Market and Wider Market Development		
Pre-trade and Post-trade Transparency in the secondary market	Bid offer prices posted on Reuters and monitored by Bank of Uganda. Monthly consultation meetings between Bank of Uganda and Treasurers. Information asymmetry insofar as primary dealers hold most of the information.	The Securities Central Depository which has shown teething problems is under review. It is expected that the system will provide connectivity to foreign investors.

Required Standard	Current Position	Comments and Priorities
Trading Options	No legal framework or infrastructure for short selling in bonds.	Bank of Uganda is exploring the possibility of introducing securities lending. Strong market demand for short selling.
Safe Secure and Easy Settlement	Real Time Gross Settlement and Central Securities Depository are in place.	The Securities Central Depository is in place but facing some teething problems Poor information flow from the Securities Central Depository (takes long to check account). This may be resolved by upgrade.
Regulatory Policy	There is no Regulators Forum in place.	Non-bank institutions requesting eligibility as primary dealers. A call for second tier primary dealers. Discussions are ongoing to have Self-Regulatory Organization (SRO).
Money Market	Horizontal repo not in place. BoU provides intraday lending to banks in need.	Global Master Repurchase Agreement is under review to enhance repo trading and increase liquidity. Sell-buybacks also being considered.
Taxation	Withholding Tax is set at 20%.	Withholding tax makes market for bonds expensive.

Source: *Developing Government Securities Markets in the East African Community, ESMID Africa/World Bank Group*

The 20% withholding tax on government bonds is unattractive to investors, particularly foreign investors, who are not themselves subject to tax, such as pension or investment funds.

3.2.1.2 Non-Government debt market

There are no infrastructure bonds presently in issue in Uganda. The ability to issue infrastructure bonds via capital markets is probably limited to smaller scale projects that have revenue streams that cover interest payments on the debt issued; but even if these desired to raise such finance, there are numerous barriers to such issuance which include the ability to undertake securitization, for instance of mortgages or other loans, and therefore the capacity to finance housing. For instance, in Malaysia, the National Mortgage Corporation (Cagamas) is the largest issuer of securitised instruments and was established in 1986, functioning as a special purpose vehicle between home mortgage lenders and investors in long-term funds.

There is as yet no consistent and harmonised legal basis for accounting and financial reporting for such vehicles and provisions for the treatment of assets, income and receivables for special purpose vehicles are absent.

The general tax treatment of investment vehicles and special purpose vehicles is unfavourable as compared to direct individual investment, and is not clearly provided for.

Further, there are currently no municipal bonds in issue in Uganda. In many countries,

these are used by municipalities to raise finance for improvements and infrastructure. It is recognised that in Uganda, probably only Kampala Capital City Authority is likely have the revenue streams that would enable issuance of such bonds, but even if it wished to do so, there are numerous barriers to such issuance in the areas of legal, fiscal and regulatory frameworks, stock exchange rules and accounting treatment.

3.2.1.3 Corporate debt market

Only UGX 293.76 billion (around USD 80 million) in total has been raised through issue of corporate bonds in Uganda since 1998, the largest issue being that of Kakira Sugar Limited in 2013 which raised UGX 75 billion. Currently, there are only two issuers of corporate bonds. A combination of barriers exists in areas such as financial disclosure and the ability to price the issuance.

Barriers to such issuance include:

- Relatively poor corporate finance capacity and awareness of this option amongst corporates
- Lack of requirements for, and enforcement of financial reporting standards for non-listed/ non financially regulated entities (this also has an impact on equity issuance - below)
- Lack of a government bond yield curve to price corporate securities
- A relatively high interest rate environment on government securities which reduces the ability of corporate companies to issue debt at affordable rates
- Lack of distinction in regulation for disclosure for equity and bond offers which makes bond issuance more onerous than necessary
- Duplicative, time-consuming and costly procedures for issuance
- Lack of ability to have short form prospectus and shelf registration which would reduce costs

In general, in relation to bond markets, the barriers to more successful issuance include:

- The lack of market rules for Over The Counter markets
- The narrow range of domestic institutional investors
- The lack of distinction in law and regulation of different target markets and consequently, of different types of offers - retail, private offer, professional - (this is particularly important in the case of bonds which internationally tend to be issued at minimum subscription values which are too large for retail investors and so are usually sold into professional markets only) and consequent upon this, the lack of appropriately differentiated disclosure rules associated with these different groups of investors

Malaysia undertook a series of reforms in the bond market and issuance in general under its Capital Markets Plans and now has one of the most successful bond markets in Asia.

At the end of 2015, the total value of local currency bonds in issue was USD 261 billion, of which USD 142 billion was government issuance, and USD 118 billion was corporate. It is also worth noting that 31.7% of government local currency bonds were held at that time by foreign investors.

3.2.1.4 Public equity market

Despite the effort and time spent in developing a comprehensive legal and regulatory framework, infrastructure and public education, there are only eight companies with primary listings on the USE (a further eight are cross listed from the NSE). These are largely a result of government divestments. Umeme Limited, the exception, is a result of a divestment of a different kind by a foreign government - funded investment vehicle. Only a tiny proportion of Ugandan companies have raised capital in the primary market. In itself, this is not unusual in that the majority of companies in most countries use internal resources to finance their growth. A recent study of European small to medium sized enterprises² found that only 3% used equity finance and 1% debt finance. However, Uganda is unusual in that no companies at all have as yet listed on its growth market whereas regionally, both Kenya and Tanzania have attracted a limited number of these. Interestingly, the number of companies reporting a turnover of over UGX 36 billion (USD 10 million) to tax authorities is estimated to be around 200. This is an indicator that there are companies of a scale sufficient to consider raising money from capital markets.

A combination of legal, regulatory, fiscal and capacity barriers deter a greater level of equity issuance. Barriers to a higher level of equity issuance in Uganda include:

- Relatively poor quality of corporate finance skills, as well as understanding and awareness of potential to issue shares
- Disclosure and financial reporting standards; only listed companies and regulated entities (such as banks, insurers and licensed pension providers) are required to prepare accounts to full International Financial Reporting Standards (IFRS); other companies are subject to reporting standards as prescribed in the Companies Act (as amended) but enforcement has historically been weak, thus, they are unaccustomed to disclosure and transparency, as well as associated costs. The Institute of Certified Public Accountants of Uganda (ICPAU) has been working with members to improve understanding of the present application of, and barriers to IFRS for Small to Medium Enterprises adopted in 2010. The Tax Procedures Code Act 2014 requires all tax payers with an annual turnover of UGX 500 million (around USD 150,000) or more to furnish financial statements audited by a member of the Institute to the tax authorities, which may improve disclosure, but no standard is specified.
- There are adverse tax consequences for companies of full IFRS disclosure upon listing which act as a deterrent to listing
- Attitudes to risk; Ugandan citizens' understanding of the risks and rewards entailed in investing in equities is limited
- Narrow range of institutional investors; only a few domestic institutional investor have the capacity to absorb major issues

²Capital Markets for Growing Companies: A review of the European listings regime, The City UK and King & Wood Mallesons

- As noted earlier, the legal and regulatory framework does not distinguish different target markets (retail, private offer, professional offer) and consequently, different procedures, disclosures, and costs
- Issuance procedures are duplicative and costly
- The Growth Enterprise Market Segment is ill-positioned to facilitate growth companies to come to market and needs to be made more accessible (refer for an example, to the ACE (standing for access, certainty, efficiency) market in Malaysia)
- The absence of domestic venture capital/ private equity vehicles to finance non-listed companies, although limited liability partnerships are now in place.

3.2.1.5 Private equity market

Capital markets could assist in raising long term finance for Ugandan companies even if such companies do not become listed or traded on any stock exchange. The 2010/11 Census of Business Establishments shows that there were nearly 460,000 businesses, but over 99% of these are too small to raise money in capital markets. Even most of the 1% of firms categorized as 'large' with a turnover of over UGX 10 million (USD 2,700 approximately) and more than 50 employees would be extremely unlikely to be of sufficient scale to raise capital from the capital markets.

It is clear that there is need to provide additional long term finance to businesses since the key constraint to growth which micro, small and medium enterprises identify is financial. This centers on both 'limited access to finance' (74.3%), and the 'cost of finance' (73.2%). It is clear from the same survey that a fundamental challenge is the extent to which commercial banks and other financial institutions have stringent requirements around security (collateral) which such enterprises are not able to meet.³

One solution to this is the development of private equity and venture capital funds in Uganda. These are investment funds which raise finance, usually from institutional investors, specifically to provide funding to growth companies. One of the most famous examples internationally is what is now known as '3i' which is listed on the London Stock Exchange. It was originally the Industrial and Commercial Financial Corporation, founded in 1945 to serve small and medium sized businesses through the provision of long term and permanent capital, (typical investments were of £5,000-£200,000) exclusively funded by the major clearing banks and the Bank of England, who collectively agreed to provide share and loan capital up to GBP 45million (which today is worth about USD 20 billion). Creation of such funds has the advantage of diversifying risk for investors as well as providing professional management.

The importance of financing this sector is illustrated by the International Finance Corporation (IFC) which estimates that small and medium enterprises in emerging markets contribute up to about 85% of new employment, serving as indispensable engines of job creation and growth.

Provision of equity rather than debt finance is preferable for such growth companies since debt entails payment of interest and repayment of the loan, which can place substantial stresses on small businesses, particularly those which are new and operating in volatile environments. However, with provision of equity to small companies, only one in four investments succeed strongly.

However, development of venture capital funds is hampered by the present provisions of the collective investment schemes legislation, lack of provision for attractive fiscal treatment, the absence of relevant listing rules, and the lack of provision in regulatory frameworks for other institutional investors who are the natural investors in these vehicles. The Collective Investment Schemes Act 2003, as well as the regulations are highly restrictive due to the narrow range of permitted investments (such as traded shares and bonds), and excludes investments better suited to markets such as Uganda, including venture capital, or infrastructure projects, and the structures of funds typically used for investment in small companies, venture capital or private equity

Pension schemes are unable to invest in illiquid assets indirectly through publicly tradeable funds, which would provide diversification and professional management (this is unsurprising since at present such funds are not legally enabled in Uganda). In addition, there is a lack of provision for an advantageous tax regime, either for collective investment schemes other than unit trusts, or for venture capital investment, which typically is heavily incentivised to encourage investment in this high risk area. There is no provision in stock exchange rules for listing of collective investment vehicles

The creation of a 'fund of funds' as envisaged in the Second National Development Plan is likely to be hindered by the problems outlined above.

While Uganda has few major enterprises which might be candidates for initial public offers, a number of good quality medium enterprises remain in private hands whose growth is constrained by the need for collateral for loans and the relatively high cost of bank finance. With a significant increase in non-performing loans, many banks might be glad to see an increase in corporate reconstruction by issue of equity from those problem companies that have a viable business model, potentially a good source of new issues.

Further, tax authority records indicate that there are around 300 companies in Uganda with turnover of over USD 6 million per annum, and these could be candidates to raise money either through venture capital or the Growth Enterprise Market Segment.

3.2.2 Investors

A diverse range of investors that have different time horizons and risk tolerances, which evolves over time as the market becomes more sophisticated, is usually present in well-functioning capital markets. Such investors also need access to a range of good quality and timely information on potential investments. Efforts need to be undertaken to create an environment that democratises savings and facilitates investor participation in capital markets.

Investors can be divided broadly into two groups and two sub-categories; 'institutional investors' (who gather money from a range of people and organisations and invest it on their behalf and these include pension funds, insurance companies and investment funds like unit trusts); and individuals. The sub-categories of each are domestic/ regional or foreign.

3.2.2.1 Dominance of the National Social Security Fund

The potential development of institutional investors in Uganda has been restricted by the dominance of the National Social Security Fund (NSSF). NSSF is a provident fund, meaning that its members receive a lump sum upon retirement which is the current value of their total contributions to the Fund as at their retirement date. All employers in the

private sector with a minimum of five employees are legally required to contribute to this fund. The high proportion of salaries⁴ (5% by employee plus 10% by employer) that has to be contributed to the Fund is a deterrent to making other savings, as is the ability to withdraw contributions from other retirement benefit schemes (occupational schemes) upon a change of job. Thus, unit trusts and other investment vehicles have not thrived.

The dominance of the NSSF is indicated by its scale. It is only one of 58 schemes listed by the Uganda Retirement Benefits Regulatory Authority (URBRA) but at the end of 2015, its value of UGX 5,569,863 million represented around 86% of a total pension sector value of UGX 6,500,946 million⁵. It claims 1.5 million registered employees⁶, although the same regulatory report records the total number of contributors to pension schemes as numbering around 620,000.

The lack of other institutional investors of almost similar scale to NSSF (all the government schemes are unfunded and the private sector schemes, while growing strongly, are small by comparison) has historically discouraged the development of an investment management profession since the only jobs have been with the NSSF, and the only sizeable portfolios that could be managed belong to the Fund. This is beginning to change, due to legal and regulatory reforms that have required private sector pension funds to appoint licensed investment managers to manage their portfolios.

The dominance of the NSSF, which is largely internally managed although external managers have been appointed to manage small asset allocations, also results in a lack of diversity of investment views and may make issuers more reluctant to come to the market. In addition, the Fund is subject to investment, procurement and other bureaucratic bottlenecks due to its governmental nature. This implies that the market is dominated by an investor whose decision making processes are bureaucratic, slow and to some extent politicised, which is unhelpful to capital market development.

Pension funds' asset allocation in 2015 was heavily tilted towards government bonds and bills, at 69.27% of the total; corporate bonds at 2.51%, quoted equities and private equity accounted for 17.70% and 1.23% respectively. Pension funds tend to be 'buy and hold' investors, which reduces the potential for transactions on the exchanges.

3.2.2.2 Unit trusts

Other institutional investors such as unit trusts are as well in their infancy, with four funds worth around UGX 11.97 billion as at the end of December 2016.. By comparison, in Malaysia in 2015, unit trusts owned more than 20% of the capitalisation of the Bursa Malaysia, illustrating that unit trusts are the route of choice for their 18 million individual account holders⁷.

3.2.2.3 Contribution of insurance players to Uganda's capital markets

Uganda had 21 non-life and eight life insurers in 2015, and one reinsurer. Gross assets of non-life insurers were around UGX 910 billion, and UGX 227 billion for life companies. Around UGX 127 billion of non-life and UGX 94 billion of life insurance assets were held to maturity and are largely government bonds. Around UGX 95 billion of life insurance assets

⁴ 15% of wages - 10% from employers and 5% from employees

⁵ Annual Pension Industry Report 2015, Uganda Retirement Benefits Regulatory Authority

⁶ National Social Security Fund Annual Report 2015

⁷ Securities Commission Malaysia

were quoted or unquoted shares. Thus, the total exposure of insurers to capital markets assets is just around UGX 316 billion (around USD 90 million).

Further, Ugandan insurers are not playing a substantial role in domestic capital markets. Two insurers have fund management subsidiaries which offer unit trusts - which can invest in capital markets, but the contribution made by these would be recorded under 'fund management' statistics issued by the CMA rather than under assets of insurers within insurance statistics.

The lack of a good number of domestic institutional investors with sufficient scale deprives Uganda of the potential benefits of a market driven by a variety of institutional investors who compete in terms of returns on investment and product innovation, and who exercise pressure on investee companies to perform.

The barriers to diversification and growth of institutional investors in Uganda include:

- The slow pace of implementing pension sector reforms and in particular, liberalisation of the pension sector
- The high level of mandatory contributions to the NSSF which 'crowds out' other savings
- The bureaucratic and politicised decision-making process of the NSSF
- The lack of certainty of tax treatment of unit trusts and provision for other forms of collective investment funds
- The limited scope of investment vehicles and investments enabled under the Collective Investment Schemes Act, 2003
- Lack of provision in securities law and regulation for categorisation of different clients and different offering requirements, (including private placement versus offer to professionals versus full public offer) to enable a simplified and more cost effective sales process for professional investors
- The advantageous tax treatment of direct investment in assets versus disadvantageous treatment of indirect investment through most investment vehicles (even investing through a unit trust may be relatively tax disadvantageous: if a person invests in a listed share, they will receive 90 out of a dividend of 100 - net of 10% withholding tax; but this is a final tax, so there is no more tax to pay. If they receive the same dividend via income from a unit trust, they will receive 100 but will be subject to taxation at their marginal rate which, given the affluence to invest, is very likely to be at a higher rate than 10%)

3.2.2.4 Foreign institutional investors

Uganda's key economic need is to finance its growth. Since Uganda's competitive global position is still poor (115th out of 140 countries – though up from 122nd the previous year⁸), it may struggle to attract foreign investment, particularly outside industries relating to natural resource extraction.

⁸ *The Global Competitiveness Report 2015-16, World Economic Forum*

In 2015, foreign investors owned approximately 12% of government bonds, and 75% of listed shares. Interestingly, foreign corporate (institutional) investors represented 97% of the trade undertaken by active investors on the stock exchange⁹. This level of dependence upon foreign institutional investors generating turnover and revenue is unhealthy. The vulnerability resulting from dependence on high levels of foreign investment into Uganda's capital markets could be eliminated if:

- Uganda had frontier emerging markets status (as does Kenya) which would make it more attractive to a wider range of foreign investors; this would entail substantially improving diversity and liquidity of the market, and clearing and settlement amongst other factors
- Uganda's listed shares were more representative of the Ugandan economy
- The scale and liquidity of Ugandan securities markets were larger. (It can take months to invest USD 5 million which is a small investment for many global investors)

3.2.2.5 Domestic individual investors

Surveys show that only a small proportion of the population can afford to save. Participation in capital markets as indicated by the number of investor accounts held by domestic individuals in the Securities Central Depository stood at 17,267 by the fourth quarter of 2015. However, as expressed as a percentage of trading, their participation has been declining from 10% of trading in 2010 to 2% in 2014. Trading by regional and foreign individuals has also been falling and was around 1% of the total.

Outside equity markets, individual Ugandan investors have a very limited range of choices of suitable and reliable options for their savings in the formal sector in Uganda. Banks offer generally low and uncompetitive rates for savings deposits. A limited number of individuals participate in government bond markets.

There are a limited number of collective investment schemes, which in most countries are the vehicle of choice for small savers and investors, but these have not been very actively marketed.

Most individuals in Uganda do not consider investing in the stock market or any other type of formal savings scheme linked to it. They prefer other kinds of assets in which to save. According to the Finscope Study 2013, even of the three million adults nationally in the top quintile by income, only 29% have an investment account in a financial institution as compared to 34% in an informal institution. The most popular ways of saving are farmland (27%), livestock (33%) and investing in personal business (39%). One might assume that the top 10% of those residents in Kampala, analyzed above, would have a different profile, with more savings committed to formal financial institutions and less to farmland and livestock. However, the data is not sufficiently detailed to validate this. Many savers nationally (41%) keep savings in a 'safe place'. But the conclusion is inescapable that only a small minority of Ugandans have the means to save, and that even among those that do, there is a preference for traditional ways of creating wealth, that is, land, livestock and private entrepreneurial activity. This is partly because even those in the top quintile

report that they have inadequate information about investments and are thus unwilling to commit to them.

However, Uganda has 8,000 investment clubs and, if SACCOs are included, there are around 20,000 savings groupings in total which could invest in capital markets. The amount of money invested through these is unknown. One indication is that DFCU Bank, which encourages investment clubs to bank with it, holds 6,000 such accounts worth around UGX 6 billion (around USD 1.6 million). These clubs have an established interest in saving and investing and provide a starting place for development of greater awareness of potential investments and returns.

In addition, around 7.8% of those in employment are categorized as CEOs, senior officials, professionals or technicians. These could be expected to earn median monthly wages of between five and ten times those earned by the workers in the lowest two categories, and thus may have disposable income to save and invest. This social category is likely to expand and become the investors of the future. Reaching them through their workplace is likely to be easier and cheaper than more widely distributed public information campaigns.

Barriers to greater participation in capital markets by individual Ugandan investors include:

- Lack of awareness of savings options and of capital markets investments, and their associated risks and returns
- Lack of access to secure investments with competitive returns which would attract more investors
- The narrow range of savings options available and the lack of attractiveness and penetration of unit trusts.

3.2.3 Infrastructure

The infrastructure of capital markets is essentially the exchanges upon which trade takes place, the central depository which holds the records of ownership of the securities traded and the clearing and settlement system which ensures that buyers receive the securities they purchase and sellers receive the sale price due.

A well-functioning capital market has market infrastructure (exchanges, Over the Counter markets, central securities depositories, clearing and settlement) that facilitates transactions between investors and issuers, which operates effectively and cost effectively and is appropriate to the nature of the market.

Uganda's capital markets infrastructure is under-used which leads to lack of economies of scale, and this situation is worsened by the duplication and triplication of infrastructure, which piles even more cost onto a narrow range of market users. This potentially makes Ugandan capital markets less attractive to investors, particularly foreign investors that can choose to invest anywhere in the world. Compare this to the Rwandan model with a single exchange and a single central securities depository for both government bonds and equities, housed at the Bank of Rwanda, which has a variety of benefits – it minimises cost and complexity and its link to the national payments system reduces risks of settlement failure thus enhancing market confidence.

Uganda presently has two securities exchanges – the USE and the ALTX Uganda; and three central securities depositories – one at the Bank of Uganda for government securities, one at the USE and one at ALTX.

At the end of 2015, there were around 3,000 accounts held in the Bank of Uganda depository and 26,376 accounts in the Securities Central Depository¹⁰ at the USE (a further 14,000 or so accounts have not been registered with the depository as yet).

Clearing and settlement is undertaken through the Bank of Uganda in the case of government securities; and through Stanbic Bank in the case of the USE. For ALTX, this is done through their own clearing company.

Levels of turnover, that is, the value of transactions expressed as a percentage of the total value of the market capitalisation, are low. In the last quarter of 2015, for instance, on the USE, there were 1,363 transactions in the period, and a turnover ratio of 0.002%¹¹. By comparison the figure for 2015 in Malaysia was 29.1%¹².

Overall the observation is that presently, the market infrastructure does not maximise potential for capital markets development due to its replication of structures and costs as well as some operational issues.

3.2.4 Market Intermediaries

A well-functioning capital market features a range of competitive and competent intermediaries that compete to facilitate transactions, or provide advice or services to either borrowers or investors such as investment management, investment banking and broking.

A summary of the intermediaries holding a licence to undertake different securities markets activities in Uganda in 2015 is shown in the table below. It should be noted that entities can hold multiple licences. In total, only 26 intermediaries operated in the market place, which is an increase by five in the period 2010 - 2015.

Numbers of entities licensed for securities markets activities in Uganda as at end of December 2016

Licensed activity	Number of licensed entities
Broker/dealer	11
Fund manager	7
Investment adviser	7
Trustee for collective investment schemes	2
Unit trust manager	3

Source: Capital Markets Authority

Of the eleven brokerage firms, nine are members of USE and the other two are members of ALTX. The vast majority of broking activity – over 90%, is undertaken by the three largest firms, with SBG Securities Limited predominating, in good part due to its foreign client base.

¹⁰ Uganda Securities Exchange

¹¹ Uganda Securities Exchange

¹² World Bank

The scale of the brokerage business undertaken at present is simply not sufficient to sustain all these firms profitably. Many are only active when a divestiture is taking place.

Assets under management by fund managers were UGX 1,407 billion (around USD 402 million) by the end of 2015, a rise of 23% from the same date the previous year. At an assumed annual fee rate of 1% of the value of assets managed, this does not seem likely to be producing sufficient fees to sustain this number of fund management firms profitably.

The large number and small scale of most intermediaries spreads resources more thinly and reduces the capacity of intermediaries to invest in and develop their businesses and expand the market for their services. The scale, quality and competence of market intermediaries need to be improved so that they can better intermediate flows of capital.

Barriers to the improved nature and scale of intermediation in Ugandan capital markets include:

- The lack of conventional transactional business and ability to generate this in the case of brokers/dealers or market makers
- The limited resources of broker/dealers and capacity to bring new issuance to the market
- The high level of input needed to work with any one company to bring it to the market – this can take two or three years to achieve (for instance, accounts need to be reconstructed to comply with International Financial Reporting Standards) and is an expensive process both for adviser and for issuer (private equity firms, by contrast, meet expenses of this type which may partly account of the increasing popularity of this form of funding in Uganda)
- The small scale of assets available to manage or service, given the internal management of the vast majority of the National Social Security Fund portfolio
- In the case of collective investment scheme managers, lack of access to distribution of their products (though insurance linkages of present collective investment scheme managers may address this)
- Cumbersome licensing processes involving multiple regulators

The first Malaysian Capital Markets Master Plan noted similar problems in relation to brokerage:

“This narrow revenue base [brokerage commission and interest income]... has meant that stockbroking companies have arguably had little incentive to devote the resources needed to move beyond their role as pure broker-dealers. Given these issues the stockbroking industry as a whole faces challenges in building up the ability to develop the capacity – both financially and in terms of breadth of services – to continue to serve their customers effectively and remain competition amid further deregulation and liberalization”

The second Master Plan notes that:

“The consolidation of stockbrokers also increased the soundness of capital markets intermediaries and strengthened competitiveness; with some stockbroking firms evolving into investment banks”

3.2.5 The Legal, Regulatory, and Supervisory Framework

A well-functioning capital market has a legal and regulatory framework governing markets, borrowers, investors, intermediaries and institutions that is clear and appropriate and enables innovation and a supervisory agency with the knowledge and skills to develop the market legal and regulatory framework appropriately and apply it effectively.

The supervisory agency for capital markets in Uganda is the CMA. Its objectives as mandated by the Capital Markets Act as amended in 2011 and 2016 are to promote market confidence; ensure honesty and transparency in market transactions, carry out investor education; protection of investors and reduction of systemic risk.

The Authority has eleven Board members, including, six persons from the relevant private sector bodies with experience in law, finance, banking, business, accounting, economics, investment or a related field, the Permanent Secretary/ Secretary to the Treasury of the Ministry responsible for finance; the Governor of the Bank of Uganda; the Solicitor General; the Registrar of Companies and the CEO.. It is evident that there is no direct representation of intermediaries’ interests on the Board.

The legal and regulatory framework for capital markets includes the Capital Market Authority Act (as amended), the Collective Investment Scheme Act, 2003 and the Securities Central Depository Act, 2009. The Authority has powers to make regulations and various regulations have been made under these three laws. Other relevant laws include the Income Tax Act and the Companies Act.

Sound legal and regulatory frameworks are critical to the functioning of capital markets. The challenge with Uganda’s framework is that it is not responsive to the needs of the market and has developed in the absence of an overarching policy framework for capital markets development.

The legal and regulatory framework is cumbersome and too retail oriented

A well-functioning capital market has a legal and regulatory framework governing markets, borrowers, investors, intermediaries and institutions. The framework should be clear, appropriate, enable innovation and provide for a supervisory agency with the knowledge and skills to develop the market legal and regulatory framework appropriately and apply it effectively.

Uganda’s legal and regulatory framework for issuance of securities is very retail oriented. The present regime allows little flexibility for offers targeted only at professionals or for innovative approaches which might lessen the burden and cost of issuance. This is partly due to the way the equity market has developed – that is, predominantly government divestitures, and partly due to the lack of a variety of pension funds, collective investment

schemes and other institutional investors in the market to whom non-retail offers could be made. This makes issuance more demanding, costly and therefore less attractive.

Duplicative approval procedures for issuance of securities

Procedures for issuance are often complex and duplicative, since they involve several regulators. The table below illustrates this problem using an example of an issuer that has a primary regulator such as a bank or insurance company.

Activity	Agency
Issuer that is a bank or insurance company	No objection from BOU or IRAU
Approval of prospectus for IPO	Capital Markets Authority
Registration of Prospectus	Uganda Registration Services Bureau
Approval for Listing	USE, ALTX

Duplicative processes entail unnecessary time and cost. In addition, they are not clearly set out and sign-posted in a form that makes it easy for potential issuers to understand the requirements as prescribed in the regulatory frameworks such as the Capital Markets (Prospectus Requirements) Regulations. All these deter possible issuers; particularly if unpredictable timing of processes and approvals may give rise to missing the ‘window of opportunity’ for issuance when markets are favourable.

Growth Enterprise Market Segment Constraints

As a measure to ease raising capital for small to medium enterprises, the USE introduced the Growth Enterprise Market Segment (GEMS) in 2012, with less stringent requirements than other segments such as the Main Investment Market Segment (MIMS). However, to date the growth market has failed to attract any listings, unlike the equivalent Kenyan and Tanzanian markets-albeit with some challenges. This cannot be laid at the door of private equity or bank competition in Uganda since these are also present in Kenya and Tanzania who have had such listings. Among the technical barriers present in Uganda are that growth market rules only envisage a capital increase (rather than allowing placement of existing shares) ; are overly restrictive concerning disposals ; do not allow non-professional investors in cases where the company has been in existence for less than a year and place too much reliance on market advisers.

Legal Framework for Cross Border Market Activity

The CMA and other regulators within the East African Community (EAC) have established measures to deepen the markets by enabling cross border market activity. These include establishing the East African Securities Regulatory Authority and attempts to harmonise legal and regulatory requirements for securities markets. However, except for regional Initial Public Offers and cross listing of securities (primarily from Kenya to the other EAC markets), there has been very limited cross border market activity. Infrastructure, currency and transaction risks are among the factors that hinder cross border market activity. In addition, except for Kenya, capital markets in the other East African Community markets are nascent and companies do not typically raise capital from domestic capital markets. Cross border market activity will naturally follow the development of a domestic market.

¹⁵ See rule 4(5).

¹⁶ Rule 5 permits founding shareholders to dispose of their interest after three years from the date of admission to the GEMS.

¹⁷ The East Africa Securities Regulatory Authority (EASRA) is a body of regional securities regulators in the EAC.

Legal and regulatory frameworks need to better support the development of products that broaden and deepen the market

Constraints to the development of Collective Investment Schemes and other products

A key feature of global financial markets is rapid and constant change and evolution. Uganda's legal, regulatory and supervisory framework for capital markets is inflexible and restrictive and is thus ill-suited to accommodating the rapid and dynamic change typical of global financial markets. Introduction of new instruments or structures often involves changes to law or regulation which takes a while to bring about. This restricts innovation and means that Uganda may lag behind developments in regional or international markets. This therefore necessitates for swifter and more frequent review of laws and regulations. Currently, the only framework governing the operation of investment funds in Uganda is the Collective Investment Schemes Act, 2003, which only provides for public offer of such schemes. Internationally, creation and offer of investment funds only to professional investors historically was exempted from collective investment scheme regulation but in the last decade there has been a trend to instead to subject such funds to 'light touch' regulation such as that applicable in Europe under the Alternative Investment Fund Managers Directive.

Under the Collective Investment Schemes Act of Uganda, it is not possible to create a scheme which is not a licensed or recognised scheme under the Act, which therefore subjects such schemes to full public offer requirements and prevents investment in illiquid securities. Institutional investors would achieve better and more cost effective spread of risk by investing in a fund with a diversified portfolio of venture capital companies, for example, than by investing in such companies directly; and should have greater potential for better returns, since the manager of the venture capital fund monitors company performance.

Further, the Act does not envisage the range of investment funds typically enabled internationally including investment companies with fixed capital and funds structured as limited liability partnerships.

The Uganda Retirement Benefits Regulatory Authority Investment of Scheme Funds Regulations of 2014 make provision for investment by pension funds into collective investment schemes and real estate investment trusts but do not clearly envisage investment in venture capital or private equity being made through investment vehicles which are not collective investment schemes (thus also excluding investment in foreign funds which is a common way of achieving international exposure). This would prevent these schemes investing in such funds which would be good long term investments given their ability to take long term risks which limits the funding available to support such long term ventures.

Regarding the development of other products, CMA enacted various regulations to enable products such as asset backed securities and real estate investment trusts. While this is a step in the right direction, it is important to understand that other fundamentals must be in place for the market to broaden and deepen. Obstacles include the tax treatment of investment vehicles, limited public awareness about the products, and limited expertise to structure and advise potential participants and a limited institutional investor base.

Public Sector Agencies' ability to raise capital is restricted

Municipal, Government Agency and Infrastructure Financing

The inability of local governments to satisfy the requirements for listing fixed income securities as provided in rule 36 of the USE Listing Rules would also need to be addressed; the listing rules provide for the procedure for listing government securities in rule 37 but these do not apply to securities issued by local governments.

Utilities are governed by different laws and should be able to issue bonds without the problems cited here. However, they have a different set of challenges - particularly willingness of government to back or guarantee the issue.

Licensing and Supervision of Market Participants is cumbersome and costly

Currently, a single entity must have a series of licenses in order to undertake the combination of broking, dealing and investment management services that is typically undertaken by entities providing corporate finance services. This is more cumbersome than necessary and introduces more costs than is necessary. The table below indicates the duplicity and multiplicity of approvals and licenses required by the different financial markets and industry regulators.

Activity	CMA	USEUSE/ALTX	URBRA	BOU	IRAU
Broker/Dealer	√	√			
Fund Managers	√		√		
Custodians	√		√		
Trustees	√		√	√	√
Investment advisers	√				

Supervisory capacity needs to be enhanced

The present scale of capital markets cannot as yet support the full costs of the regulator; uncertainties about finance and low revenues have led to difficulty in retaining staff and the higher remuneration paid by other newer Ugandan regulators and the private sector has also affected this capacity. This has reduced the expertise available to the Authority and will have an impact on the effectiveness of ongoing capacity building.

The existence of three different non-bank regulators (against the recommendations of the Carmichael Report which recommended a single non-bank financial institutions regulator) also spreads relatively scarce regulatory skills and knowledge more thinly and reduces potential for provision of career progression, making them less attractive to employees.

In relation to the CMA, the lack of expertise or knowledge in some detailed areas of regulation (such as that of corporate bond issuance, REITS etc) may give rise to risk-averse decision-taking which may restrict innovation in the marketplace and also to a regulatory framework that lacks comprehensiveness and internal cohesion. To date, there is also a lack of a functioning appeals tribunal.

Evidence from Malaysia indicates that:

“The strengthening of the regulatory framework underpinned the healthy and sustained growth of the capital market over the decade. As market participants enhanced their professional standards and capabilities, there was a progressive shift to a disclosure-based regime that reduced issuance costs and shortened time-to-market for equity and debt fund-raising activities and the launch of investment products.... The increasing convergence of financial activities prompted a pragmatic shift towards risk-based supervisory approaches from a prescriptive rule-based approach... Global recognition of Malaysia’s regulatory framework and capabilities is already providing tangible benefits by supporting positive international assessments of the country, attracting portfolio investments and paving the way for Malaysian intermediaries to gain access to other markets via cross-border regulatory arrangements.... Through building a diversified market with strong intermediaries operating in a well-regulated environment, Capital Markets Masterplan 1 provides a sound foundation from which to move forward with Capital Markets Masterplan 2 .”

4: VISION FOR UGANDA'S CAPITAL MARKETS

4 : VISION FOR UGANDA'S CAPITAL MARKETS

The vision of Uganda's capital markets development master plan is to position Uganda's capital markets within the frontier market category of the Morgan Stanley Capital International for equities as a way of attracting more international capital to meet financing needs for both the government and private sector.

The objectives of the Plan are to:

1. Improve access to long term finance for the public and private sector
2. Facilitate deepening and broadening of securities markets
3. Improve efficiency in securities market regulation
4. Facilitate the development of market intermediation services
5. Maximise supply of long term finance

4.1 Key initiatives

Achieving a substantial change in the ability of capital markets to contribute to Uganda's economic growth will require a high level focused, sustained, comprehensive and coherent programme of reforms.

These are necessary because to date, the legal, regulatory, supervisory, fiscal and accounting frameworks are not sufficiently interconnected and aligned to provide a conducive environment for capital markets development and expansion. Government spearheaded the development of capital markets by establishing a regulator, providing resources for institutional development and taking the initial steps to develop the market through the divestiture program: but more than this is needed to create the environment within which capital markets can flourish. A review of the legal, regulatory and supervisory framework needs to be done to make it more conducive to development without exposing the market to risk.

Uganda's capital market will remain a small, inefficient and expensive market in which to raise capital, which means it will not contribute to economic growth very effectively unless fundamental reforms are undertaken. The range and scope of key barriers to raising capital by the public and private sectors are highlighted in the next chapter. However, it must be noted that removing just one of these will not bring substantially greater success. All of them need to be tackled concurrently and effectively if capital markets are to make a substantially greater contribution to the economy.

As the Second National Development Plan acknowledges, this capital is needed due to the increasing need to finance the public and private sector at a time when there are reductions in provision of concessionary finance and increased global competition to attract investment. Thus this Plan is timely.

As Uganda's past experience shows, Government needs to do more than establish a

framework and a regulator and provide an initial market stimulus for capital markets to succeed. The findings of the market assessment phase demonstrate that there is such a complex nexus of factors that stand in the way of improved mobilisation of capital that it will not be sufficient to tackle these in isolation since one change will not, of itself, achieve the overall outcome needed.

The Plan makes recommendations for structural reforms that will require coordinated implementation by various stakeholders as well as general recommendations and specific actions that should be implemented by the responsible agencies/ institutions.

5: MAJOR STRUCTURAL REFORMS REQUIRED

5 : MAJOR STRUCTURAL REFORMS REQUIRED

Capital markets have for the last twenty years operated at the periphery of Uganda's financial sector. In order for capital markets to effectively contribute to economic growth, structural reforms must be implemented. Wide ranging reforms are recommended in fiscal policy, financial reporting, market infrastructure, supply of securities, expanding the investor base, and in the legal and regulatory environment within which the capital markets operate. These reforms are briefly outlined below:

5.1 Tax policy for capital markets development

Uganda has gradually implemented various fiscal measures to support capital markets development. These have been piecemeal and largely focus on equities and retail investments. The MoFEPD should, in consultation with CMA and Uganda Revenue Authority review fiscal barriers to capital markets development and in particular, fiscal barriers to savings mobilisation, the tax treatment of investment vehicles such as special purpose vehicles, funds structured as corporate entities, real estate investment trusts and securitisation transactions. In addition, there is need to review the structure for taxation of pension in Uganda and the implications for capital markets development.

5.2 Financial Reporting

It is necessary to improve financial reporting by enforcing financial reporting standards for companies. In addition, there's need to adopt measures to improve capacity for financial reporting in both the public and private sector. These include training and building on existing initiatives such as the financial reporting awards, to encourage both public and private sector institutions to improve their reporting standards.

5.3 Rationalise market infrastructure

It would have been ideal to have a single integrated trading, settlement and payment system. The presence of multiple systems has led to investment in systems that will remain under-utilised for a long time. There is need to revisit the issue of market infrastructure and explore interim measures such as linking existing systems, and measures to reduce settlement risk. Long term measures should be guided by efficiency, cost effective and best practice standards on infrastructure for securities markets.

5.4 Improve supply of securities

In addition to measures to ease issuance of securities, there is need to build the capacity of professionals to advise issuers and structure products for raising capital and investment, implement government bond market reforms as a precursor to the development of corporate bond markets, provide tax amnesty for private sector companies that have to restate their financials in order to list on the stock exchange and the USE Growth Enterprise Market Segment to enable it function as a gateway to public markets.

5.5 Expand the investor base

Stable and well-functioning markets require a diversified investor base to provide the necessary capital inflows to improve liquidity. This will require wide ranging interventions. Firstly, there is need to recognize and allow for professional investors. It is evident from various data that only a small proportion of the population can afford to save. In addition, those that can afford to save do so through traditional means such as real estate and farming. Investor education and development of appropriate products and channels may channel some of these savings towards capital markets. There are various on-going efforts to expand the formal sector. However, these will not necessarily expand the investor base if tax and mandatory contributions such as that to the NSSF leave very little disposable income in the hands of savers. The slow implementation of pension reforms has limited opportunities for the development of a diverse institutional investor base.

5.6 Legal and regulatory framework for capital markets

There is an urgent need to revise and amend the legal and regulatory framework for capital markets to ease issuance of securities, eliminate duplicative procedures and allow for innovation and product development. The framework should target different investor categories with different disclosure standards. In addition, the regulatory framework for collective investment schemes should be aligned with the level of development of the market and allow closed ended funds as well as investments in illiquid assets. Bond issuance requirements should be aligned with international practice and in particular, taking into account the nature of bond investors and disclosure requirements for bond issuance.

Implementing the above reforms would lead to the following outcomes:

- The nature, range and scale of issuance would expand, attracting more investors and enabling more capital to be raised
- The expansion in issuance and investors would make the market more attractive to intermediaries, whose business could expand making them more viable and more able to develop their client base and in turn, bring forward more issuers or service more investors
- Use of capital markets infrastructure would increase, spreading its costs more widely so that the market can become more cost effective for issuers and investors, and enable more investment in infrastructure development

6: RECOMMENDATIONS AND ACTIONS

6 : RECOMMENDATIONS AND ACTIONS

This chapter presents the proposed recommendations within this Plan and the actions needed to effectively have them implemented.

	RECOMMENDATION	ACTION
1.2	Structural reform	
1	Government should make a long term policy commitment to providing a conducive environment for capital markets development and set out a planned and phased approach to achieve this, as well as dedicate adequate resources to demonstrate this commitment	<p>Develop the human capacity within MFPED to prioritize the Master Plan's implementation and effectively deliver upon that commitment</p> <p>Avail the financial resources necessary to deliver upon that commitment</p> <p>Government should mandate all formerly state owned entities like Kinyara, Kakira, and Tororo Cement to be listed on the stock exchange</p> <p>Government should impose mandatory listing (locally or off-shore) for companies in specific public interest and/ or strategic sectors. These can include all tier 1 banks, telecommunications firms, insurance companies, and large energy companies.</p>
1.3	Expanding issuance and enabling more capital raising	
2	Improve access to government bond markets in the primary market and widen participation in them in order to increase the diversity of the investor base (both foreign and domestic) and reduce Government's cost of borrowing	<p>Improve debt market operations at the MoFPED.</p> <p>Enhance co-ordination between the Debt Management Office and Bank of Uganda</p> <p>Carry out relevant reforms to the structure of the debt market in order to enhance market making with the objective of improving liquidity and the yield curve</p>
3	Increase trading of government securities in the secondary market	<p>Conduct all government bond secondary trading on the local stock exchanges and subject to regulation by the CMA e.g. Armenia</p> <p>Commence secondary trading of Government securities through an independently managed securities depository, as one way of improving efficiency of trading and settlement of government bond transactions in the secondary market. Private depository to become a member of the national payment system.</p> <p>Incentivise primary dealers to provide secondary market liquidity by ensuring that they meet their primary dealer obligations</p> <p>Create enabling environment that will support securities lending by providing a legal and operational framework that covers different categories of investors, notably, pension funds.</p>

	RECOMMENDATION	ACTION
4	Facilitate municipal and infrastructure SPV's access to domestic and international savings	<p>Build the human capacity at local government level to enable them absorb the debt financing raised effectively</p> <p>Ensure effective and timely implementation of the International Public Sector Accounting Standards</p> <p>Enable issuance to be targeted at institutional investors only as is typical internationally</p> <p>Amend USE Rule 36 to enable listing of municipal bonds</p> <p>Enable special purpose vehicles through changes to accounting treatment of receivables, income and assets; removing barriers in insolvency and stamp duty law and defining an appropriate fiscal treatment supported by capacity building</p> <p>Implement pension reform, remove tax barriers and pass legislation to enable development of a wider range of domestic professional or institutional investors to invest in such issuance</p> <p>Identify a local government eligible to raise capital from capital markets such as Kampala Capital City Authority and provide technical assistance to conduct a feasibility study to assess their capacity to raise capital from capital markets</p>
5	Streamline and simplify requirements for corporate issuance in order to reduce costs of issuance, improve timeliness of issuance, and the ability of issuers to exploit financing opportunities effectively	<p>Reforming the regulatory procedures for corporate bond issuance to make it easier for different types of non-Government bond issuers (public and private issuers, SPV's, infrastructure bonds, etc.) to target different classes of investors</p> <p>Reforming the equity issuance guidelines to clearly separate and simplify issuance requirements for private placements, listing by introduction, growth market offers, and public offers</p> <p>Carry out a survey amongst previous corporate bond issuers to identify the problematic issues they encounter and establish how these can be resolved</p> <p>Enable shelf registration whereby an issue can be registered with the relevant authority but may be issued at any time over a defined period (such as two years) enabling the issuer to pick optimal timing for capital raising. This necessitates revising the regulation that requires issuers to present updated accounts for the previous six months period.</p> <p>Following the amendment to the Financial Institutions Act to enable Islamic banking, there is need to explore regulatory requirements for government Sukuk and corporate sukuk</p> <p>Create and publicise checklists for the revised methods and procedures of issuance and clearly sign-post potential issuers to these checklists</p>

	RECOMMENDATION	ACTION
6	Remove tax disincentives in order to encourage companies to raise capital from the capital markets and to encourage group savings	<p>Remove withholding tax on bonds with maturities of five years and above</p> <p>Lower withholding tax on dividend payments (10% in Kenya, 15% in Uganda)</p> <p>MoFPED should grant a three year tax amnesty to companies following a material restatement of financials prior to listing on an exchange; companies that issue bonds; and to companies that obtain private equity investment</p> <p>Amend the Income Tax Act to provide clarity on waiver of capital gains tax on gains realised by those selling shares in private companies when such companies become public</p> <p>Introduce preferential corporation tax for companies that go public</p> <p>Companies that have been identified as tax defaulters should be directed to get listed in order to qualify for tax amnesty on their arrears</p> <p>Undertake a comprehensive study on tax policy in relation to capital markets development</p> <p>Eliminate tax and other constraints to investment of collective savings such as those mobilized through savings groups. At present, it is more tax efficient for the individual members to invest than for the savings group to become a legal entity and use the entity as a vehicle for investment</p>
7	Promote the alternative market tiers to increase issuer access to the market, and clearly differentiate the issuance requirements.	<p>Enable the Growth Enterprise Market Segment to operate as an exchange regulated market for professionals only with minimal requirements</p> <p>Develop a clearly differentiated tiered approach to requirements for different exchange markets; - MIMS as now; and other tiers for equities and bonds with less demanding financial reporting, governance and float requirements</p> <p>Develop listing rules for investment funds including Development Real Estate Investment Trusts and venture capital funds</p> <p>Review and address current constraints to the development of the Growth Enterprise Market Segment. These include aligning rules with best practice for alternative markets such as allowing for introductions and placement of securities, flexibility on exit and for the market to be an exchange-regulated market.</p> <p>Revise listing fees to ease cost of listing on the Growth Enterprise Market Segment.</p> <p>Amend the definition of listing by introduction to facilitate GEMS listings</p>
8	Create more awareness about public and private issuance and its benefits in order to encourage a greater number and variety of issuers to come to the market	<p>Establish an advisory centre to provide initial 'one stop' advice to potential issuers on capital markets financing options by initially working with business organizations like the Uganda Manufacturers Association</p> <p>Improve the capacity of intermediaries to engage with issuers effectively through training, exposure to best practice and interactions with intermediaries from different jurisdictions.</p> <p>Award an annual corporate prize for most innovative capital raising</p> <p>Identify high growth sectors and companies whose need for capital is unlikely to be met by sources other than capital markets and identify candidates for potential capital raising to be targeted</p> <p>Demonstrate the value of raising capital in capital markets through presentations of success stories featuring companies and individuals involved in successful capital raising</p>

	RECOMMENDATION	ACTION
9	Improve financial reporting by developing capacity for corporate financial reporting in order to improve the capacity of companies to raise capital in financial markets	<p>Enforce compliance with financial reporting standards as required in the Companies Act</p> <p>Provide cost efficient and timely access to resulting disclosure through the Uganda Registration Services Bureau (URSB).</p> <p>URSB should provide restricted access to financial information of companies that turnover USD 10 million and above per annum to private equity investors that are approved by the CMA</p>
10	Improve potential for capital raising for companies in order to expand companies' access to capital and their ability to grow, and improve the number of companies that could in future come to capital markets to raise capital	Commission a study to identify firstly the optimum methods of providing growth finance in Uganda for key sectors like infrastructure and mining and the barriers to their development that need to be removed; and, secondly, to identify priority sectors for such financing
11	Enable issuance to be targeted at different client categories with different offering procedures and disclosure in order to enable issuers raise finance more cost-effectively and target different target markets more appropriately	Amend the regulatory framework for offering of securities to create three clearly defined and distinct regimes for offering of securities to three different categories of clients – retail, professional only and private placement
1.4 Widening the investor base and investor choice		
12	Improve the information available to investors in order to create understanding of the rewards and risks in the capital markets, relative to other investments	<p>Develop and publish annual or quarterly generic information on the capital and income performance of investments, demonstrating comparative returns, together with explanations of the investments and their associated risks and rewards</p> <p>Create awareness of the information available working with investment and savings clubs and workplaces</p> <p>Increase dissemination channels for information on capital markets products</p> <p>Promote the teaching of capital markets in secondary schools and university curriculum</p> <p>Publicize capital markets products in all high human traffic areas</p>
13	Create more awareness among investors about capital markets opportunities and their benefits in order to encourage uptake	<p>Make a standardized set of information on investments and associated risks and returns publicly available</p> <p>Develop a campaign to increase awareness about investment options, working with savings and investment clubs</p> <p>Publish a current list of approved unit trust products on the Capital Market Authority website</p> <p>Develop a capacity building programme for trustees of pension schemes to help them understand investments, risk and return</p>

	RECOMMENDATION	ACTION
14	Diversify government bond offering beyond the plain vanilla bonds and also introduce a new government savings product that is not a bond, simple to understand, avoids complexity and offers competitive returns in order to encourage formalization of savings; It should be guaranteed by government; not require a bank account to subscribe to it if distributed using the mobile money platform	Request technical assistance from the United Kingdom's National Savings and Investments or a similar body to undertake a feasibility study for the development of the product in Uganda and identify costs and implications and take action accordingly Issue diaspora retail bond Issue inflation linked bonds with a small premium
15	Attain frontier emerging markets status in order to attract more foreign investment into the equities, and debt market.	A review of the steps needed for Uganda to achieve Frontier Emerging Markets status should be undertaken and a plan put in place to take steps to ensure Uganda achieves this status <u>within the period of this Plan</u> Increase International Investor access to Government of Uganda treasury bonds
16	Enable a wider range of institutional investors to function effectively in order to diversify and deepen demand for issuance and improve mobilization of capital for investment into other investment vehicles like real estate, housing, infrastructure and growth companies	Review and amend the Collective Investment Scheme Act and Capital Markets Authority Act and relevant regulations to enable a wide range of investment funds structured as legal entities, such as companies, partnerships and trusts of open, interval and closed ended types (this will also require adjustment to company law) Enable tiered offering to investors to enable offers of funds such as venture capital funds to professionals only by clearly defining the different investor categories Develop listing rules to facilitate the listing of investment funds on securities exchanges
17	Implement pension reform in order to diversify the investor base; mobilize savings and create more demand for issuance; and develop a wider variety of investors who are able to invest in higher risk asset classes such as venture capital which is typically only eligible for investment by institutional investors or professional investors	Liberalize the pension sector as envisaged in the Second National Development Plan, making the Public Sector Pension Fund contributory Eliminate the ability of organization sponsored occupational pension scheme members to withdraw contributions from their schemes upon a change of job since this in effect means no lump sum will be provided to finance retirement Eliminate the capacity of a pension scheme member to withdraw the full value of their contributions upon retirement by requiring a part of this to be invested in order to provide an annuity income during retirement

	RECOMMENDATION	ACTION
1.5 Making market infrastructure more effective		
18	Minimize duplication of activities between the exchanges and the Authority in order to reduce the elapsed time and costs involved	Streamline the roles of the exchanges and the Authority Simplify the number and nature of the processes involved
19	Reduce settlement risk in order to become more attractive to a wider range of foreign institutional investors	Move towards full delivery versus payment Move towards settlement through Bank of Uganda as a measure to reduce settlement risk, or ensure the private depository used for secondary bond trading is a member of the national payments system
20	Rationalize central securities depository functions in order to make Ugandan markets more efficient, cost effective and competitive	Revisit the issue of market infrastructure and explore interim measures such as linking the existing three depositories into one for clearing and settlement. Long term measures should be guided by efficiency, cost effectiveness and best practice standards in infrastructure for securities markets
1.6 Enhancing the quality of intermediation		
21	Improve the capacity of market intermediaries to service the needs of issuers and investors effectively so that they can attract more issuers and investors to the capital markets	Review the capital and competence requirements for brokerage firms and attach market development conditions that have to be met prior to license renewal Provide capacity building for intermediaries in financial analysis, in the new and revised issuance types and procedures and in the practical aspects of acting as a nominated adviser Provide capacity building to create a pool of specialised market advisers. Encourage inclusion of a capital markets module in accountancy and legal syllabuses and business school syllabuses
1.7 Improving the legal, regulatory and supervisory environment		
22	Develop the capacity of the regulator in order to support implementation of this Plan and enhance understanding of operational factors in the success of capital markets	Provide capacity building to the CMA staff to support implementation of the Plan and effectively implement the recommendations that are specific to the regulator

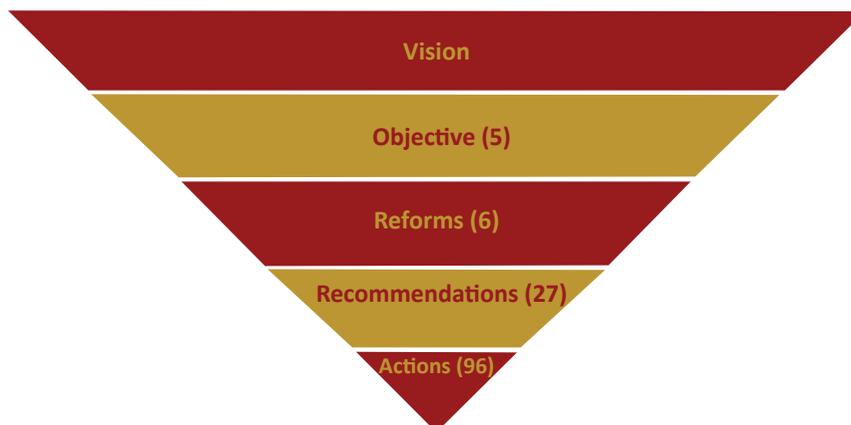
	RECOMMENDATION	ACTION
23	Review and amend the regulatory framework for issuance of securities in order to make issuance easier, quicker and more attractive; and eliminate or minimize duplicative procedures	<p>There is need to distinguish between full scale public offers of securities that target retail investors and offers to professional investors that require a “light touch regime” and private placement. The Capital Markets Authority Act defines the scope of a public offer and therefore offers of securities that are within the definition must comply with the prospectus requirements regulations. It is important to clarify the obligations and regulatory requirements for offers that are outside the scope of the definition of a public offer</p> <p>Align regulatory requirements for bond issuance with international practice and in particular, taking into account the nature of bond investors and disclosure requirements for bond issuance</p> <p>Develop templates for offer documents</p> <p>Regulators should undertake periodic review and harmonisation of disclosure requirements</p> <p>CMA should review the fees structure and approval process for secondary market activities</p>
24	Developing the legal framework for cross border market activity in order to mobilize capital from the region	<p>Adopt and incorporate the East African Community (EAC) Council Directives into domestic legal and regulatory frameworks</p> <p>Enhance cooperation among EAC regulators to facilitate a single approval for operations across the region</p> <p>Develop an efficient and safe infrastructure to support securities market transactions across the region for ease of marketing of the ‘East African asset class’ to foreign investors.</p>
25	Address constraints to collective investment scheme and other product development in order to facilitate a wider range of investment funds to function effectively, improving mobilization of capital and investor choice; and diversifying the investor base	<p>Review the collective investment scheme laws to tailor them to the market by allowing for greater flexibility in investments and structuring products suited to the market including funds of funds</p> <p>Increase awareness of Collective Investment Schemes amongst group savings schemes</p>
26	Enact measures to enable municipal, government agency and infrastructure financing through capital markets in order to meet Uganda’s significant infrastructure needs.	<p>Amend the Local Governments Act to remove the 25% revenue limit on issuance of securities</p> <p>Revise bond issuance requirements and cost factors to ease issuance and make it attractive to borrow long term</p> <p>Review the National Social Security Fund and Uganda Retirement Benefits Regulatory Authority (URBRA) investment regulations to allow them more flexibility to invest through a wider range of investment vehicles e.g. Infrastructure SPV’s</p> <p>Explore the feasibility of a cross-border framework for infrastructure finance similar to the European Long Term Investment Fund (ELTIF), including the regulatory framework, suitable vehicle, tax treatment</p> <p>Institute a policy requirement for all revenue generating projects to be partly refinanced/ financed in UGX. For example, power, oil, transport infrastructure</p> <p>Amend listing rules to enable listing of municipal and infrastructure bonds and collective investment vehicles</p>

	RECOMMENDATION	ACTION
27	Review licensing and supervision of market participants in order to achieve greater efficiency and cost effectiveness	<p>CMA should implement full risk-based supervision in order to maximise effectiveness of deployment of its resources in alignment with EAC policy on regulation of capital markets</p> <p>The CMA, BOU, URBRA, USE, ALTX, and other regulators such as Financial Intelligence Agency should identify areas of duplication and develop harmonised standards of reporting and compliance</p>

7: IMPLEMENTATION

7 : IMPLEMENTATION

7.1 Synopsis of Capital Markets Development Master Plan



7.2 Structure of implementation

The implementation of the Master Plan will be led by a Capital Markets Development Steering Committee chaired by the MoFPED. It is expected that the composition of the Steering Committee will change once every three years.

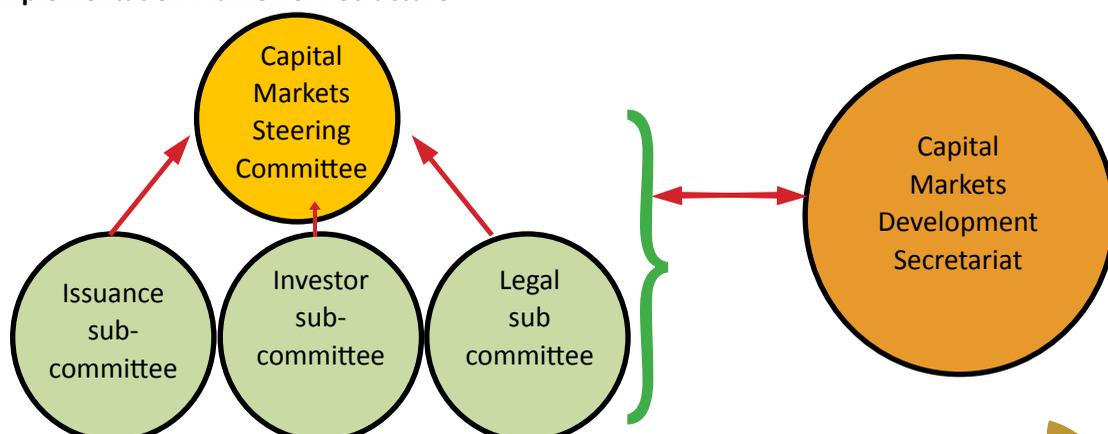
The Steering Committee will be supported by a Secretariat based at the CMA.

The Steering Committee will have three permanent sub-committees: Issuance, Intermediaries and infrastructure subcommittee; Investors Subcommittee; and Legal, Policy and Regulatory Frameworks Subcommittee.

The Capital Markets Development Steering Committee will review progress at the end of each year from the adoption of the Plan and publish a report.

Progress of the implementation of the Plan will be externally evaluated at the end of two years, the end of five years and the end of ten years, to provide for room for review.

Implementation Framework Structure



Membership of these committees is set out below together with their areas of responsibility.

Committee	Responsibilities	Key members
<p>Capital Markets Development Committee</p> <p>Chair: MoFPED</p>	<ul style="list-style-type: none"> • Act as high level forum to synchronise activities • Take overall responsibility for implementation of the Capital Markets Development Master Plan • Facilitate the work of the Secretariat and sub-committees • Publish an annual report on progress • Identify, recommend and approve funding options as necessary • Meet quarterly 	<ol style="list-style-type: none"> 1. Ministry of Finance 2. Bank of Uganda 3. Capital Markets Authority 4. Uganda Export Promotions Board 5. Stanbic Bank 6. Uganda Investment Authority 7. USE 8. National Planning Authority
<p>Secretariat</p>	<ul style="list-style-type: none"> • Secretariat to Steering Committee and subcommittees • Co-ordinate implementation and information programmes relating to Master Plan • Monitor, evaluate and report progress to Steering Committee quarterly 	<ol style="list-style-type: none"> 1. Director responsible for Research and Market Development 2. Project manager 3. Support staff

Sub-committees, responsibilities and membership composition

Sub-committee	Responsibility	Key members
I s s u a n c e sub-committee	Improving access to long term finance, making provision of long term capital more cost effective and efficient,	<ol style="list-style-type: none"> 1. Ministry of Finance 2. Bank of Uganda 3. Uganda Manufacturers Association 4. Kampala Capital City Authority 5. Uganda National Chamber of Commerce 6. Private Sector Foundation Uganda 7. Ministry of Energy & Mineral Development 8. Ministry of Works and Transport 9. Ministry of Local Government 10. USE 11. ALTX
I n v e s t o r sub-committee	Improving availability of long term finance	<ol style="list-style-type: none"> 1. Association of Retirement Benefit Schemes 2. National Social Security Fund 3. Fund managers 4. Association of Investment Clubs of Uganda 5. Uganda Cooperative Savings & Credit Union 6. URBRA

CMDC Legal, Policy and Regulatory sub-committee	Maximising potential for provision of and access to long term finance	<ol style="list-style-type: none"> 1. Ministry of Finance 2. MoJCA 3. CMA 4. Institute for Certified Public Accountants of Uganda 5. Uganda Law Society 6. BOU 7. CMA 8. IRAU 9. URBRA 10. URSB 11. Ministry of Local Government 12. Kampala Capital City Authority 13. Uganda Local Government Finance Commission 14. USE 15. ALTX
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7.3 Phased implementation

The Plan will be carried out in three phases, as follows.

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Strengthen capacity, develop tiered streamlined issuance requirements, improve awareness, agree fundamental reform project, and undertake studies identified										
			Amend legal, regulatory, and fiscal reporting frameworks; rationalize depositories; capacity building; raise awareness; introduce government retail savings product; and re-launch growth market							
						Fully implement financial reporting for government and companies; enforce compliance and disclosure; raise awareness of issuance and growth market				

7.4 Summary of recommendations, phasing and responsibilities

A summary of responsibilities for implementation of recommendations is given below, along with phasing of recommendations and the institutions responsible.

Key to colour coding

	Key structural reform
	Priority
	Critical if capital markets are to finance economic growth effectively
	Important
	Useful

Recommendation	Phase	Responsibility	Priority
	3		
FUNDAMENTAL RE-FORMS			
Agree to implement structural reforms (refer to recommendations 1,4,7,9,11, 16, 17, 22, 24) and set out plan		MFPED, CMDC	Critical
EXPANDING ISSUANCE AND ENABLING MORE CAPITAL RAISING			
Improve access to the government bond primary market		Bank of Uganda	Critical to other bond markets
Increase trading of government securities in the secondary market		CMDC Investor sub-committee	Important
Facilitate municipal and infrastructure SPV's access to domestic and international savings		MFPED, MoLG, Local Government Finance Commission, CMDC	Critical
Streamline and simplify requirements for corporate issuance		CMA, CMDC legal sub-committee	Useful
Remove tax disincentives to listing		MFPED	Important

Recommendation	Phase		Responsibility	Priority
		3		
Promote the alternative market tiers to increase issuer access to the market, and clearly differentiate the issuance requirements.			CMA, USE	Important
Create greater awareness of issuance opportunities			CMA, stock exchanges, investment houses, brokers	Useful
Improve corporate financial reporting and disclosure			ICPAU, URSB, CMDC legal sub-committee	Critical
Identify optimum methods of providing corporate growth finance and remove barriers to these potential			MFPED, CMDC	Critical
Enable issuance to be targeted at different client categories			CMA	Important
WIDENING THE INVESTOR BASE AND INVESTOR CHOICE				
Improve the information available to investors			CMA, CMDC investor sub-committee	Useful
Make individual investors more aware of capital markets opportunities and benefits			CMA, stock exchanges, CMCD investor sub-committee	Useful
Introduce a new government savings product			MFPED, BoU, CMDC investor sub-committee	Useful
Attain frontier emerging markets status			CMA, stock exchanges	Useful
Enable a wider range of institutional investors to function effectively			MFPED, CMDC	Critical
Implement pension reform			MFPED, CMDC	Critical

Recommendation	Phase	Responsibility	Priority
	3		
MAKING MARKET INFRASTRUCTURE MORE COST EFFECTIVE			
Minimise duplication of activities between CMA and Exchanges		CMA, stock exchanges	Useful
Reduce settlement risk		USE, ALTX,SCD, CMDC	Important
Rationalise central depositories		USE, SCD, BoU, ALTX	Important
ENHANCING THE QUALITY OF INTERMEDIATION			
Improve the quality of market intermediaries and advisers		CMA, licensed market participants	Important
IMPROVE THE LEGAL, REGULATORY AND SUPERVISORY ENVIRONMENT			
Develop the capacity of the regulator		MFPEP, CMA	Critical
Review and amend the framework for securities issuance		CMA, CMDC legal sub-committee	Critical
Develop the legal framework for cross border activity		CMA, CMDC legal sub-committee	Important
Address constraints to collective investment scheme and other product development		CMA, CMDC issuance sub-committee	Critical
Enact measures to enable municipal, government agency and infrastructure financing through capital markets		MFPEP, MoLG, CMDC issuance sub-committee	Critical
Review licensing and supervision of market participants		CMA	Important

7.5 Measuring progress

A list of indicators which are efficient measures of capital market development are listed below. The relevant data should be regularly reviewed and the indicators also revisited regularly to determine progress over each year.

In addition, a series of milestones are also listed against which progress can be identified.

Rigorous and honest analysis of the reasons for success or failure is needed and the impact on markets. There is no one indicator that is necessarily a measure of success. It is progress across the whole array of the market and the growth momentum of the market that matters.

The key functions of a capital market are to raise capital and mobilise savings to finance it; and therefore the most important measures are based around these.

Key metrics of capital markets

Type of finance	Numbers	Value/other measure
Equity	Main market – new listing	Market capitalisation
	Main market – secondary offering	Equity main market Equity growth market
	Growth market – new listing	
	Growth market – secondary offering	
	Growth market – introduction	
Private equity	Total amount raised/ year	
Listed SME/Venture Funds	Total amount raised/ year	Market capitalisation
Non-government bonds		
<i>Corporate</i>	Main market – new listing	Market capitalisation
	Main market – secondary offering	
<i>Municipal or quasi government</i>	Main market – new listing	
	Main market – secondary offering	

Government bonds	Existing bonds in issue at year end New issues at different maturities	Yield curve
Ownership of government bonds %	Domestic institutions, Pension funds, NSSF, Insurance, Unit trusts, Individuals, Foreign investors, <i>Region</i> <i>Other</i>	
Investment vehicles		
Fund management companies	Number	
Unit trusts	Number of funds Number of investors	Funds under management
Pension funds		Total funds under management
NSSF		Funds under management
Others	Number of funds	Funds under management
Retail savings	Number of savers in formal sector (non-traditional land etc.)	Total of domestic retail savings As % of GDP
Bank savings deposits Pension Unit trust Insurance Government bond Other special savings products	Percentage of savings in each	Total value of each

MSCI Frontier Market Index Indicators

Criteria	Indicator
A. Economic Development	
A1. Sustainability of economic development	No requirement
B Size and Liquidity Requirements	
B1. Number of companies meeting the following standard index criteria:	2
Company size (full market capitalization)	US\$ 630 million
Security size (float adjusted market capitalization)	US \$ 49 million
Security liquidity	
C. Market Accessibility Criteria	
C1. Openness to foreign ownership	At least some
C2. Ease of capital inflows/ outflows	At least partial
Capital flow restriction level	-Degree of restrictions on inflows & outflows of foreign exchange from the local stock market
Foreign exchange market liberalization level	-Existence of on-shore and off-shore foreign exchange market
C3. Efficiency of the operational framework	
<u>Market entry:</u>	
Investor registration and account set up	-Complexity of registration requirements
<u>Market Organization:</u>	
Market regulations	-Level of advancement of regulatory framework
Competitive landscape	-Absence or existence of anti-competitive clauses restricting investors' access to stock exchange information.
Information flow	-Timely disclosure of complete stock market information
<u>Market Infrastructure:</u>	
Clearing and settlement	-Well functioning clearing and settlement system based on international standards
Custody	-Level of competition among custodian banks as well as presence of global custodian banks
Registry	-Well functioning central registry

<i>Trading</i>	<i>-Level of competition among brokers ensuring high quality services</i>
<i>Transferability</i>	<i>-Possibility of off-exchange transactions in kind mechanisms</i>
<i>Stock lending</i>	<i>-Existence of a regulatory framework for stock lending</i>
<i>Short selling</i>	<i>-Existence of a regulatory framework for short selling</i>
C4. Stability of the institutional framework	
<i>Stability</i>	<i>Basic institutional principles such as rule of law and its enforcement as well as stability of free market economic system.</i>

Milestones - indicators of progress

Milestones	Phase
Improving issuance to raise long term finance	
Revised primary dealer agreements in place	1
Improved auction programme in place	1
Global Master Repurchase Agreements in place	1
Securities lending regulation in place	1
Study on reforms needed to expand issuance published	1
Legislation enabling investment vehicles passed	2
Study on reforms needed to expand municipal issuance published	1
Local government law amended	2
Listing rules for municipal and infrastructure bonds adopted	2
Insolvency law and stamp duty law amended	2
Financial reporting standards for special purpose vehicles adopted	2
Full implementation of financial reporting by public and private sector companies with disclosure requirements	3
Tax amnesty on companies on material restatement of financings on listing/sale for listing published	1
Income Tax Act amended on waiver of capital gains when private company goes public	1
Revised issuance regulations with three tier approach, shelf registration, three client categories in place	1
Issuance checklists published	1

Milestones	Phase
Capital Markets Authority Act amended to permit exchange regulated markets	1
Regulation and rules enabling listing by introduction in place	1
A functioning advisory centre and issuance awareness material in circulation	3
Improving availability of long term finance	
Material for awareness campaign published	1
Improved capital markets database information published	1
Income Tax Act amendment to make tax treatment of unit trusts tax neutral with direct investment adopted	1
Review of taxation of indirect and indirect investment published	1
Documentation for new government retail savings product published	2
Amended or new Act adopted to enable full range of investment funds	2
Amended regulations of National Social Security Fund in place	2
Amended investment regulations of URBRA	2
Morgan Stanley Capital International announcement of Uganda's frontier emerging markets status	3
Making provision of long term finance more cost effective and efficient	
Listing or sale documents for USE published	1
Rules adopting three tier market including Growth Enterprise Market Segment in place	1
Listing rules for collective investment vehicles in place	2
Revised broker capital regulations in place	1
Risk-based capital adequacy regulations or rules in place	1
Regulations for simplified bond issuance in place	1
Templates for offer documents published	1
Regulations governing investment house licence in place	1

APPENDIX

Annex 1: Documentation reviewed and stakeholders interviewed

Annex 2: A case study of Malaysia's Capital Markets Development Master Plan



ANNEX 1: DOCUMENTATION REVIEWED AND STAKEHOLDERS INTERVIEWED

- Vision 2040
- National Development Plan 2010/11 – 2014/15
- Second National Development Plan 2015/16 – 2019/20
- Financial Markets Development Plan 2008 – 2015
- Capital Markets Authority Strategic Plan 2013/ – 2015/6
- Surveys, quarterly reviews and annual reports for Ugandan financial sector regulators
- Capital Markets Investors Survey and Capital Markets Participants Surveys
- Legal and regulatory framework for capital markets and other relevant Ugandan laws such as company law and EAC Directives
- Studies relating to incomes and financial literacy and to financial sector development in Uganda, including Financial Inclusion in Uganda, National Financial Literacy Baseline Survey, Uganda 2013 Finscope III Survey Report Findings and the Strategy for Financial Literacy in Uganda
- International Monetary Fund World Bank reports on Uganda’s financial sector
- Reports on Uganda’s compliance with international standards such as the World Bank 2014 Report on Observance of Standards and Codes and FSDRP I Report and Action Plan on East African Community Partner States’ Compliance with IOSCO Principles
- Study on Demutualisation of the USE
- Studies on capital market development in Uganda and the East African Community such as the Bond Market Development in Eastern Africa; Nasdaq-OMX Gap Analysis and Action Plan; Report on Regulatory Review and Legislative Changes Needed to Support the Development of Bond Markets in East Africa; Study to Assess and Develop Guidelines for Local Governments to Issue bonds
- Capital Markets Plans for other countries including Kenya, Malaysia, Rwanda, Sri Lanka

The organizations/ persons consulted at meetings and at the stakeholder workshops were:



ACCA	KPMG	PricewaterhouseCoopers
African Alliance	Knowledge Consulting Ltd	Stanbic Bank
ALTX Uganda	ICEA Asset Management	Standard Chartered Bank
Asante Capital	Investment Clubs Association	Stanlib
Bank of Uganda		UAP
Baraka Capital	Kampala City Council Authority	Uganda Clays
Britannia Allied Industries	MMAKS Advocates	Uganda Electricity Generation Company
Capital Markets Authority	Ministry of Finance Planning and Economic Development	Uganda Energy Credit Capitalisation Company
Crested Capital		
Deloitte	Mungereza & Kariisa Associates	Uganda Investment Authority
EPOC		
Genesis Capital	Ministry of Local Government	Uganda Law Society
ICEA Asset Management		URBRA
Insurance Institute of Uganda	National Housing and Construction Company	Uganda National Roads Authority
Kambona Associated Advocates	National Planning Authority	Uganda Revenue Authority
Japheth Katto	NSSF	USE
	Pearl Capital Partners Uganda	
	Pinebridge Investments	

ANNEX 2: A CASE STUDY OF MALAYSIA'S CAPITAL MARKETS DEVELOPMENT MASTER PLAN

Malaysia is used as a key reference point for emerging markets capital market development in this Plan because:

- It has created and applied two Capital Markets Master Plans so results can be examined: these targeted both creating a facilitative environment and taking a pro-active approach to mobilising capital
- It is regarded as an open, innovative and entrepreneurial market with good quality law, regulation and supervision
- It is a more developed emerging market of more substantial scale; but it has successfully overcome similar problems to those to be tackled in Uganda: it has successfully provided finance for instance for small and medium enterprises – and diversified investors and investment management
- Regional countries which could otherwise be used as examples broadly have the same issues to deal with as Uganda and have not been notably more successful in addressing those issues to date
- It is an object lesson in the focus and drive and wide-ranging effort that is needed to bring about change
- It also had a capital market dominated by major governmental investors whose assets were managed internally – the Employees Provident Fund and the Permodalan Nasional Berhad, a State-sponsored unit trust

Malaysia's first Capital Market Development Master Plan issued in 2001 noted three key challenges: one of which was meeting the needs of the growing economy – funding issuers; providing for consumers' investment and intermediation needs; and employment and knowledge needs – which parallel's Uganda's needs. The Capital Markets Master Plan made 152 recommendations of which 95% had been implemented by the end of 2010.

In the period 2000 – 2010 (Malaysia's first Capital Markets Master Plan covered this period), stock market capitalization rose from RM 444.4 billion to RM 1,275 billion (an annual compound growth rate of 11.1%): numbers of annual new listings varied from 14 to 72 (see charts below) and annual funding raised varied between RM 5.9 billion and RM 33 billion. In addition, Malaysian bond markets grew annually by 10.8% from RM 273.1 billion in 2000 to RM 758.6 billion in 2010. Regulatory regimes for collective investment schemes, Real Estate Investment Trusts and Exchange Traded Funds and institutional funds were developed or introduced, resulting in annual growth of assets under management in the investment management sector of 21.2%, from RM 55.2 billion in 2000 to RM 377.4 billion in 2010, largely driven by an expansion in unit trusts from RM 43.3 billion in 2000 to RM 226.8 billion in 2010 (an increase from 9.74% of stock market capitalization to 17.79%). By the end of 2010 14 Real Estate Investment Trusts and 5 Exchange Traded Funds were listed on Bursa Malaysia¹³.

¹³ *Capital Markets Masterplan 2, Securities Commission Malaysia*

Number of new companies' listed and total number of listings in Malaysia during the first Capital Markets Plan period

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
New listings	28	20	51	58	72	76	40	26	23	14	29	28
Listed companies	773	836	865	906	963	1021	1027	987	977	960	957	941

Source: Bursa Malaysia

New funding raised in Malaysia in the First Capital Markets Plan period

Source: Bursa Malaysia

The implementation of the first Capital Markets Plan in Malaysia led to:

“..Structural changes in the channels of savings mobilization and intermediation in Malaysia to address funding vulnerabilities. The sources of funding have been broadly diversified in tandem with the expansion of the Malaysian capital market. This has reduced concentration and maturity mismatch risks as well as provided greater avenues for the financing of large-scale projects. The diversification of financing sources through broadening the capital market provided a prudent balance between debt and equity assets and strengthened the resilience of the national financial system.¹⁴”

As a result, in 2010 Malaysia ranked 8th for provision of financing through local equity markets, 11th by number of listed companies per 10,000 people; 5th for stock market capitalization and 24th for stock market turnover ratio in a survey based on 57 countries¹⁵.

In 2013, the Prime Minister of Malaysia commented:

“Over the last twenty years... the broadening and deepening of the capital market has enabled savings to be more efficiently mobilized and utilized for capital formation. By unlocking latent sources of capital, markets have enabled enterprises to raise capital for long-term fixed investments. This turn paved the way for broad-based development, by financing critical public and private infrastructure, such as utilities, transportation and communication....Opportunities for Malaysians to build wealth over the long-term have also grown. Through the capital market, corporate ownership has been increasingly democratized, enabling Malaysians to play a bigger part in - and benefit from – our nation’s growth story.

As Malaysia’s experience suggests, when correctly harnessed and channelled, markets can prove to be transformative: not just for the economy but for society too. By unlocking opportunity, and giving citizens a greater stake in their nation’s success, they can strengthen individual prospects and the bonds of unity.... Over the years, the capital market has been instrumental in enabling Malaysia’s economic development and a higher standard of living for its people.”¹⁶

In 2015, if Uganda had achieved the proportionate scale of capital markets relative to GDP as in Malaysian markets, the scale of its markets would be as follows.

¹⁴ Capital Market Masterplan 2, Securities Commission Malaysia

¹⁵ Financial Sector Development Report 2010, World Economic Forum

¹⁶ Speech to 3rd World Capital Markets Symposium 2013

If Ugandan capital market size were proportionate to Malaysian market size relative to GDP

	Malaysia as % GDP – end 2015	Uganda 2015 based on same % GDP – in USD	Uganda - actual figures 2015
Stock market capitalisation	133%	5.48%	1.41 billion*
Total funds raised in year	1.84%	Nil	Nil
Nominal value of government bonds in issue	48%	40%	7.23 trillion
* Domestic listings only; figures used for Malaysian bond comparisons are local currency bonds only			

Source: Bursa Malaysia, Securities and Exchange Commission Malaysia, World Bank

This Plan could have a major impact on the scale illustrated above if both fundamental longer term reforms and shorter term improvements are made.

Such commitment is vital if major change is to be achieved. In the case of Malaysia, an indication of high level commitment is that the Foreword to the second Capital Markets Plan is by the Prime Minister, who notes that:

“The Capital Market Masterplan 2 forms another vital contribution to the collective and coordinated efforts to invigorate the economy through expanding the role of the capital markets in financing the country’s development”

