Capital Markets Authority

Protecting Your Investments

CAPITAL MARKETS AUTHORITY

STRATEGIC PLAN

2016/17-2020/21

ACRONYMS

CISI	Chartered Institute of Securities and Investment
CMA	Capital Markets Authority
DFI	Development Financial Institution
EAC	East African Community
EASRA	East African Securities Regulatory Authorities
ETFs	Exchange Traded Funds
FSD	Financial Sector Deepening
GDP	Gross Domestic Product
IOSCO	International Organisation of Securities Commissions
IRAU	Insurance Regulatory Authority of Uganda
KPI	Key Performance Indicators
MMoU	Multi–lateral Memorandum of Understanding
MoU	Memorandum of Understanding
NSE	Nairobi Securities Exchange
PPP	Public Private Partnership
REITs	Real Estate Investment Trusts
SEC	United States Securities and Exchange Commission
URBRA	Uganda Retirement Benefits Regulatory Authority
URSB	Uganda Registration Services Bureau
USE	Uganda Securities Exchange

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FORWARD FROM THE BOARD CHAIRMAN

Three years ago, we embarked on a journey of driving growth of the Ugandan capital markets. Looking forward to the next strategic plan period, we plan to build on the gains made so far. Growth will continue to be the emphasis of the strategy of the Capital Markets Authority (CMA) because at only 5% of domestic market capitalization as a proportion of Gross Domestic Product (GDP), our capital markets are still small. Therefore, if the capital markets are to play an integral role as an alternative and supplementary source of financing for the Ugandan economy, scale and size will be critical.

Where We are Coming From

In the previous strategic plan period (2012/13–2015/16), CMA made some significant steps towards transforming the Ugandan capital markets into one of the most vibrant centers of investing and raising capital in Africa. During this period, the Uganda Securities Exchange launched an automated trading platform. The CMA Board also approved a second securities exchange; ALTX-Uganda with a Pan-African vision and new products which included Real Estate Investment Trusts, Exchange Traded Funds and Depository Receipts. This product range is expected to increase the menu of investment opportunities for investors and business opportunities for market intermediaries in the Ugandan capital market.

In line with the changing regulatory tides in the international markets, CMA adopted a risk-based supervision approach which empowers the regulator to better manage market risks than the compliance based approach. Furthermore, CMA introduced a client service charter which is intended to make the regulator more efficient and accountable in the discharge of its regulatory mandate.

Where We are Going

In the next five (5) years, CMA's focus will be guided by four (4) major goals outlined below.

i) Increase awareness of capital markets among potential market issuers, investors and key stakeholders
ii) Ensure the capital markets laws and regulations are appropriate, and Simplify capital markets regulatory processes and procedures.
iii) Develop and strengthen relationships with key stakeholders
iv) Enhance the capacity of market intermediaries and participants to develop the capital market.

To achieve the above goals, CMA will pursue a three pronged strategy anchored in the themes of market development; market efficiency and integrity; and an efficient and effective CMA.

This strategy comes at a time when the CMA Act has just been amended and the development of a 10 year capital markets development masterplan is complete. These two initiatives provide a revolutionary reshaping of the capital markets landscape in Uganda. Actualizing the amendments to the CMA Act and working together with the industry and other stakeholders to implement the capital markets development masterplan are therefore going to be the driver of CMA's operations.

I would like to extend my heartfelt gratitude to my fellow board members for their professionalism and time devoted towards the growth of CMA as an organization and the capital markets industry as a whole. While it will be 20 years this year since CMA was established, the journey of building the capital markets in Uganda has just started. Much more remains ahead of us. Like the Chinese proverb says, "The journey of a thousand miles starts with one step".

Grace Kavuma

Board Chairman

1. WHO WE ARE

The Capital Markets Authority (CMA) is a semi-autonomous public agency established in 1996, following the enactment of an Act of Parliament, the Capital Markets Authority Act, Cap 84. The line ministry for the Authority is the Ministry of Finance, Planning and Economic Development. CMA plays a significant role in regional and international cooperation and is a member of the East African Securities Regulatory Authorities (EASRA) and the International Organisation of Securities Commissions (IOSCO).

1.1 OUR MANDATE

CMA is charged with four primary responsibilities:

i) the development of all aspects of the capital markets with particular emphasis on the removal of impediments to, and the creation of incentives for longer term investments in productive enterprise;
ii) the creation, maintenance and regulation, through implementation of a system in which the market participants are self-regulatory to the maximum practicable extent, of a market in which securities can be issued and traded in an orderly, fair and efficient manner;
iii) the protection of investor interests; and
iv) The operation of a compensation fund as provided for in section 81 of this Act.

1.2 VISION

To establish Uganda's capital market as the most efficient and trusted centers for attracting and providing capital in Africa

1.3 MISSION

To foster a transparent, accessible and effective capital market in Uganda.

1.4 VALUES

INTEGRITY

We act ethically and work in the public interest, treating people fairly and honestly

TEAMWORK

We support and promote collaboration among the CMA team and with external stakeholders

ACCOUNTABILITY

We strive to live up to the aspirations of our mission so as to deliver quality services and promote the best interest of our stakeholders

EXCELLENCE

We strive to pursue and deliver the highest quality of service to our stakeholders

1.5 OUR ORGANISATIONAL STRUCTURE

CMA is governed by a board of directors appointed by the Minister of Finance, Planning and Economic Development. The Board comprises of 12 members:

i) the chairperson from the private sector
ii) six other members from the private sector
iii) the Permanent Secretary/Secretary to the Treasury, of the Ministry of Finance, Planning and Economic Development or their representative
iv) the Governor of the Bank of Uganda or their representative
v) the Registrar of Companies or their representative

vi) the Solicitor–General or their representative

vii) the Chief Executive of CMA

Currently, CMA's organizational structure provides for a total staff count of 22 with the departments of Research and Market Development; Market Supervision; Legal and Board Affairs; and Corporate Services. Each department is headed by a director[1].

2. THE 2012/13–2015/16 STRATEGIC PLAN SCORE CARD

2.1 ACHIEVEMENTS

In the 2012/13–2015/16 strategic period, CMA achieved a number of milestones in the areas of regulation, market supervision, market development, engagement with government, as well as regional and international cooperation. Below are the highlights of the achievements. A detailed matrix of the strategic plan scorecard is in the annex.

TABLE 1: A SUMMARY OF THE ACHIEVEMENTS OF THE 2012/13–2015/16 STRATEGIC PLANNING PERIOD

STRATEGIC OBJECTIVE	KEY ACHIEVEMENTS
Enhance the effectiveness of capital markets regulation	i) Passing of the CMA Amendment Bill ii) Board approval of the: † Exchange Traded Funds (ETFs) guidelines, † Real Estate Investment Trusts (REITs) regulations, † Investor Compensation Fund Regulations † Collective Investment Schemes (Foreign Schemes Order) † Amendment to different regulations to provide for revised fees iii) Publication of Book Building Regulations iv) Signed an MoU with the Financial Intelligence Authority to facilitate collaboration in anti–money laundering v) Signed an MoU with the Chartered Institute of Securities and Investment (CISI) based in the United Kingdom (UK)

[1] Refer to the Annex for a diagrammatic representation of the organizational structure

STRATEGIC OBJECTIVE	KEY ACHIEVEMENTS
	to develop a capital markets industry certification Program vi) Commencement of the pilot phase of the capital markets industry certification Program vii) Undertook enforcement actions that involved restitutions and penalties to the tune of Ushs 407 million; the largest so far in the history of Uganda's capital markets industry. viii) Launch of the Client Charter to facilitate efficient service delivery in the discharge of CMA's mandate ix) Commencement of a lite version of risk-based supervision x) Publication of market supervision manual
To facilitate and promote the participation of investors and issuers in Uganda's capital markets	i) Signed MOU with FSD Africa for technical assistance for the development of the Capital Markets ii) Outreach to 22,000 potential investors in different forums including Rotary clubs, Universities, Church investment seminars, Regional gatherings of professional bodies, Public and Private Sector organizations iii) Outreach to an estimate of 250 potential issuers in different forums including Chamber of Mines & Petroleum, Bank corporate clients, various in-house CMA events, one-on-one discussions with over 40 business leaders. iv) Approval of the automation of secondary trading at the Uganda Securities Exchange v) Approval of a second securities exchange, ALT-X Exchange vi) Approval of the largest ever secondary offer of securities of UMEME (U) Ltd that was done across the two markets of Uganda and Kenya. The offer was valued at US$ 85.5 Million and attracted investors of international repute from around the world. vii) Turnover on the USE has increased from ushs 141 billion in 2013 to ushs 191 billion in 2015.
Actively engage Government to ensure appropriate capital markets policies & financial sustainability of CMA	i) Undertook policy dialogues with Ministry of Finance, National Planning Authority. ii) Government funding to CMA increased by 13.5%
Promote domestic, regional and international cooperation to facilitate capital markets development	i) Participated in the development of 18 East African Community (EAC) Securities Council Directives which will provide a regulatory framework for capital markets cross border activity across the EAC. Seven (7) of these

STRATEGIC OBJECTIVE	KEY ACHIEVEMENTS
	directives have been gazetted and await domestication in the different EAC Partner States ii) Launch of supervisory colleges among the East African securities regulators. Two joint supervision inspections between Uganda and Kenya were undertaken iii) Signed an MoU with the Institute of Certified Public Accountants of Uganda (ICPAU) to promote best practices in financial reporting, and partnered with ICPAU to organize two editions of the financial reporting awards iv) Signed an MoU with the Institute of Chartered Secretaries and Administrators (ICSA) to promote best practices in corporate governance, and partnered with ICSA to organize four editions of the annual directors and company secretaries conference
Enhance CMA's institutional capacity to fulfill its mandate	i) Trained staff in the areas of markets development, market supervision, regulation, risk management, financial reporting, performance management, securities & investment, and leadership. ii) Revised the organizational structure to improve institutional efficiency iii) Received an unqualified opinion and report from the Auditor General's office for the period 2013/14–2014/15

2.2 CHALLENGES

In spite of the milestones achieved during the strategic planning period under review, CMA still faces some challenges internally and externally. Table 2 provides a summary of challenges CMA still faces.

TABLE 2: A SUMMARY OF THE CHALLENGES CMA STILL FACES

Internal	External
i) Inadequate funding ii) High staff turnover especially in the market supervision department. iii) Operating in a manual environment in an increasingly automated industry iv) Inadequate capacity in the areas of market surveillance, investigations and enforcement	i) Low levels of appreciation of the capital markets industry among investors, issuers and policy makers ii) Low levels of transparency and accountability amongst potential issuers iii) Continued DFI funding of financial institutions and utilities. iv) Low secondary market turnover in debt and equity capital market

	v) High cost of Government borrowing vi) Limited participation of domestic investors who on average account for less than 5% of the total secondary market turnover per annum vii) Undercapitalized market intermediaries viii) Inadequate capacity among market intermediaries especially in structuring corporate finance transactions

2.3 LESSONS LEARNT

In the course of implementing the previous strategic plan CMA has learnt some lessons that can inform the design of its future strategic interventions. These are some of the major lessons learnt in the period under review.

i) **Institutional Investors as the Drivers of Capital Markets Investments:** In the short to medium term, the capital markets in Uganda will better operate as wholesale markets for investors. Not many Ugandans can afford to invest directly in the capital markets because of the low levels of income. According to the most recent national household survey, the national average monthly household income is Ushs 453,000 which includes both cash and in-kind earnings. This means that a typical Ugandan will not have sufficient disposable income from which to invest directly in the capital markets. However, they may be in a position to contribute a decent sum to a savings or investment group or retirement benefits scheme. Therefore leveraging the power of numbers, there is an opportunity for Ugandans to still invest in the capital markets but through investment vehicles such as collective investment schemes, retirement benefits schemes and savings and credit cooperatives (SACCOs).

ii) **Financial Institutions as Issuers:** A majority of Ugandan businesses are micro, small and medium enterprises (MSMEs) which do not have the capacity to access the capital markets at an affordable cost. A typical Ugandan business in most cases is looking for growth capital of not more than Ushs 1 billion. Experience in the Ugandan market shows that raising less than Ushs 5 billion in the capital markets will be very costly compared to accessing the same amount from the banking and micro-finance sectors. These limitations to MSMEs notwithstanding, they still need to access long-term capital from the capital markets. One way of making this possible is for banks, micro-finance institutions and other financial institutions to access finance from the capital markets to on-lend to the MSMEs at more affordable rates. Since most of these institutions are regulated entities, they are better suited to stand the rigors of raising funds in the capital markets.

iii) **Government Bonds as a Key Driver for Growth:** With not many eligible potential issuers in the private business sector, government remains the major driver for the growth of the capital markets in the short to medium term. A vibrant and deep government bond market will provide a firm foundation for the development of the private markets. Government bonds are considered risk free and their regular issuance provides immense investment opportunities to investors and increased liquidity in the secondary markets.

iv) **Private Placements and Private Equity have a fundamental role in the development of the capital markets:** A lot of emphasis has been placed on the public capital markets and yet private equity and private placements are increasingly gaining prominence as an alternative source of long-term financing especially for the medium sized companies. These capital markets need to be further developed and promoted to meet the need that cannot be addressed by the public capital markets.

v) **Outsourcing Investor Education:** The CMA has come to the conclusion that it is not sustainable in terms of both financial resources and human capital to undertake investor education in-house. Reaching out to the wider public with the message of capital markets will always be an enormous task which CMA cannot undertake alone. Therefore outsourcing this responsibility needs to be part of the solutions to reach out to a wide investor base.

3. OUR ENVIRONMENT

The successful execution of the CMA strategy will not only depend on CMA's internal capacity but also on the external factors in the environment within which CMA operates. This section analyses those external factors that will have a dominant effect on CMA's strategy. The environment is categorized into five aspects;

i) Political Environment
ii) Economic Environment
iii) Socio-Demographic Environment
iv) Technology Environment
v) Legal Environment

TABLE 3: ENVIRONMENTAL SCAN AND ITS IMPLICATIONS ON CMA

ENVIRONMENT SCAN	IMPLICATIONS FOR CMA
POLITICAL i) Stable political environment in the medium to long-term. ii) Government policy on capital markets unlikely to change in the foreseeable future. Capital Markets development is one of the major features of Vision 2040 and the National Development Plan II iii) The enactment of the Capital Markets Authority Amendment Bill 2016	i) There is likely be low activity in the capital markets in the short-term as the different players watch the unfolding political events before they can invest or raise capital. This is thus likely to result in the reduction of revenues CMA derives from market activity ii) Likely favourable policies towards capital markets development leading to an increase in financial support, faster passage of legislation and involvement in CMA activities. iii) The enactment of the CMA amendment bill 2016 enables CMA to apply to become Appendix A signatories of the International Organisation of Securities Commissions (IOSCO) Multi-Lateral Memorandum of Association (MMoU)
ECONOMIC i) Over the last 7 years the real Gross Domestic Product (GDP) annual growth rate has fallen from a high of 8.1% in 2007 to 5.2% in 2014. This growth rate is projected to grow to 5.2% and 5.5% in 2015 and 2016 respectively.	i) A stable macro-economic environment with decent economic growth rates and low inflation rates provides a good foundation for capital markets growth. ii) A depreciating shilling to the US Dollar may not

ENVIRONMENT SCAN	IMPLICATIONS FOR CMA
ii) Over the last 9 years, the foreign exchange rate has depreciated by an annual average margin of 8% over this same period. With an increasing trade deficit, this trend is likely to continue in the foreseeable future. iii) For the most part of the last decade, Uganda has maintained single digit inflation rates of less than 10% and the trend is unlikely to change in the medium to long-term iv) Despite the deposit base in Uganda's banking sector growing 9 times from Ushs 1.8 trillion in 2007 to Ushs 9.50 trillion at the end of 2015, private sector credit remains at only 13% of GDP. With an estimate of 3 million bank accounts out of a working population of 10-15 million there is a lot of scope for growth	favour capital markets growth especially for foreign investors. However high investment returns in the Ugandan market may more than offset the foreign exchange risk iii) Single digit inflation and sustainable price levels imply that real returns from capital markets could remain higher compared to other avenues such as savings accounts hence attracting more investors to the capital markets iv) A strong banking sector is a potential catalyst for capital markets development especially the corporate bond market. Banks' ability to raise long-term capital in the corporate bond market to service their clients is affected by high treasury bills and treasury bond rates. DFI's therefore remain the primary source of long term funding of banks in the short-term. The medium to long-term solution is a vibrant and deeper capital market
SOCIAL & DEMOGRAPHIC i) Uganda is made up of a high proportion of young people below the age of 35 years coupled with a high population growth rate of between 2% and 3% per annum. ii) A young population will also favour the growth of the retirement benefits sector as there will be fewer retirements in the population. This is expected to translate into increased contributions to the registered retirement benefits schemes and the growth in the asset base of this sector.	i) A young population is also more likely to easily accept the message of capital markets because they never witnessed the negative episodes in the history of Uganda's financial markets ii) The growth in the asset base of the retirement benefits sector will provide the pool of long-term funds looking for long-term investments in the capital markets. However this will depend on the level of domestic private and private sector development to absorb these funds.
TECHNOLOGICAL i) Increased advancement in the level of technological development with the adoption of 4G networks and expansion of the fiber optic network. ii) The increased use of smart phones due to increased incomes and affordability of smart phones among the affluent in the society iii) Increased use of mobile phone payment platforms and the introduction of mobile	i) Advancement in Technology and its applications will translate into: † Increased efficiency of the trading, clearance and settlement systems † Increased efficiency of the back-office systems of the licensed market intermediaries † Increased efficiency of CMA Compliance, market surveillance and approvals systems † Increased exposure of the Ugandan capital

ENVIRONMENT SCAN	IMPLICATIONS FOR CMA
banking iv) The integration of mobile banking and the mobile phone payment platforms v) Increased capability of developing mobile phone applications with the establishment of technology hubs by multi-national corporations such as Google and Universities such as Makerere University.	markets to the global capital markets as foreign investors would now be able to easily access the Ugandan markets without being physically present in Uganda ✝ Increased exposure to the risks of the global capital markets with the interconnectedness of the Ugandan and global capital markets. ii) Therefore CMA needs to have a robust and flexible regulatory framework that can quickly adapt to the ever changing technological landscape.
LEGAL i) The implementation of the Companies Act (2012) especially the provisions pertaining to the corporate governance of public companies ii) The implementation of the reforms in the business licensing regime iii) There is duplication of regulatory responsibilities between the CMA and the Uganda Retirement Benefits Regulatory Authority in the regulation of fund managers. There is similar duplication between CMA and BOU in regulation of custodians; and between CMA and USE in regulation of stock brokers	i) The provisions on the corporate governance are highly prescriptive which may become more cumbersome for companies to comply with. Thus some companies may become reluctant to access funding through the capital markets. To access the capital markets a company has to be a public company to enable the transfer of shares on the stock exchange once listed. Less companies accessing the capital markets negatively affects the financial sustainability of CMA. ii) The business licensing reforms are geared towards making it less costly to establish and operate a business in Uganda. The Implementation of these reforms will thus translate into increased business activity which is likely to see more companies accessing the capital markets for long-term capital. However this is hinged on the majority of these businesses being domestic businesses rather than foreign businesses which are largely financed through international capital markets. iii) The duplication of regulatory responsibilities is likely to increase the regulatory burden of players in the capital markets and possibly affect their performance

4. WHERE WE ARE AT

Over the last two decades CMA has steadily developed a strong capital markets legal and regulatory framework that encompasses all the major conceivable products one would find in a typical capital market. CMA is also considered one of the government agencies that have adopted and continue to adhere to best practices in financial reporting and corporate governance. This has boosted the public image and brand of CMA among its various stakeholders.

However CMA continues to have challenges in discharging its responsibilities of market surveillance, investigation and enforcement of regulatory sanctions due to the inadequacies in capacity in these areas. The approval turnaround times for both public offers and new products also continue to be a challenge for the Authority. This partly due to the inadequacy of the market intermediaries to prepare the applications and to some extent the complicated approval process within CMA.

The recent enactment of the CMA amendment bill 2016 presents CMA with opportunities for growth. It expands the mandate of CMA to include regulation of new products such as derivative markets and commodities exchanges. The amendments also make provisions for a faster approval process of new products and other applications to CMA. They also make provision for regional laws and regulations which will facilitate the regional integration of the East African capital markets.

The high cost of government borrowing will continue to pose a threat to the development of capital markets especially the corporate bond markets. Government securities being considered risk free investments provide the benchmark rates for rates in the corporate bond markets. Therefore the high costs of borrowing are likely to crowd out investments in the corporate bond markets as this increases the price of corporate bonds and also diverts investments to the government bond markets. Table

4 provides a summary of the strengths; weaknesses; opportunities and threats (SWOT) of CMA.

TABLE 4: A CMA SWOT ANALYSIS

SWOT	
STRENGTHS i) Independence in its regulatory functions ii) Good legal framework with several regulations and laws developed iii) Adherence to international best practices in corporate governance and financial reporting iv) Good working relations with other domestic financial sector regulators and regional capital markets regulators v) Good public image and high ethical standards among staff	**WEAKNESSES** i) Inadequate capacity in market surveillance, investigations and enforcement ii) Inadequate funding for CMA's operations iii) Inadequate communications and public education strategy iv) Inability for CMA to build and exploit its networks to facilitate the development of the capital markets v) Long turnaround approval times for public offers vi) Long approval times for new products vi) A manual operational environment in an industry that is increasingly automating its processes
OPPORTUNITIES i) Advancements in mobile telecommunications ii) Growth in the retirement benefits sector and possible establishment of a defined contributory civil service pension scheme iii) Growing number of investment groups/clubs iv) Accountability and governance reforms in the local government v) Increasing activities of foreign private equity funds in Uganda vi) Reform of the Uganda Registration Services Bureau vii) The establishment of the National Identification and Registration Authority viii) The enactment of the CMA amendment bill 2016 ix) Membership in the International Organization of Securities Commissions (IOSCO) and the East African Securities Regulatory Authorities (EASRA)	**THREATS** i) High cost of Government borrowing ii) Over reliance on funding from government whose disbursements can sometimes be untimely and inconsistent. iii) Over reliance on donor funding for development projects. iv) A lengthy legislation process v) Dominance of the National Social Security Fund (NSSF) as the main domestic institutional investor vi) Low levels of appreciation of the capital markets industry among investors, issuers, policy makers and the general public vii) Undercapitalized market intermediaries viii) Lack of transparency in record keeping amongst potential issuers xii) Low secondary market turnover for equity and Government debt xiii) Massive market abuse

SWOT	
x) Increased appreciation and uptake of professional programs such as Certified Financial Analyst (CFA), Chartered Institute of Investments and Securities–UK e.t.c. xi) Impending amendment of the Insurance law	

5. OUR STRATEGY

Over the next five years, CMA will pursue a three pronged strategy of; (i) facilitating and promoting the development of the market, (ii) ensuring the markets operate efficiently with integrity, and (iii) strengthening CMA's institutional capacity to deliver on its mandate. Once successfully implemented, this strategy should achieve the following four (4) goals or outcomes outlined below:

v) Increase awareness of capital markets among potential market issuers, investors and key stakeholders
vi) Ensure the capital markets laws and regulations are appropriate, and Simplify capital markets regulatory processes and procedures.
vii) Develop and strengthen relationships with key stakeholders
viii) Enhance the capacity of market intermediaries and participants to develop the capital market.

The strategies and strategic initiatives that will enable CMA achieve the above stated goals are summarized in table 5 and explained in detail in the sections that follow.

Table 5: A SUMMARY OF THE STRATEGIES & STRATEGIC INITIATIVES

STRATEGY	STRATEGIC INITIATIVES
Facilitate and promote the development of capital markets	i) Develop and implement an effective communications and capital markets awareness strategy ii) Ensure the legal and regulatory framework is appropriate iii) Leverage regional and international cooperation to further capital markets development iv) Develop a comprehensive stakeholder engagement strategy v) Develop the capacity of market participants and intermediaries to originate capital markets transactions
Enhance, and regulate an	i) Fostering a culture of compliance among the market intermediaries

STRATEGY	STRATEGIC INITIATIVES
orderly, fair and efficient capital market ecosystem	ii) Strengthening the market inspections and surveillance mechanisms iii) Strengthening the investigations and enforcement mechanisms iv) Simplification of regulatory processes and procedures
Enhance CMA's institutional capability	i) Attract, retain and develop the requisite talent to enable CMA to effectively and efficiently deliver on its mandate ii) Strengthen the staff performance management system iii) Develop and maintain a records management and archiving system iv) Automate CMA's core processes

5.1 FACILITATE AND PROMOTE THE DEVELOPMENT OF THE CAPITAL MARKETS IN UGANDA

One of the key functions of CMA as stipulated in the Capital Markets Authority Act is to develop all aspects of the capital markets with particular emphasis on the removal of impediments to and creation of incentives for long-term investments in productive enterprises. Facilitating the development of capital markets will be one of the key pillars of CMA's strategy over next five years with a focus on the following strategic initiatives:

i) Develop and implement an effective communications and capital markets awareness strategy
ii) Ensure the legal and regulatory framework is appropriate
iii) Leverage regional and international cooperation to further capital markets development
iv) Develop a comprehensive stakeholder engagement strategy
v) Develop the capacity of market participants and intermediaries to originate capital markets transactions

5.2 ENHANCE AND REGULATE AN ORDERLY, FAIR AND EFFICIENT CAPITAL MARKETS ECOSYSTEM

The capital markets are fundamental in bringing together investors with surplus capital and issuers seeking capital to finance various business and public sector projects. However without efficient and effective regulation, the capital markets confidence could be eroded as a result of poor conduct of business practices amongst market intermediaries and companies seeking capital.

The capital markets regulator therefore plays an important role in ensuring that the capital markets are orderly, fair and efficient so that confidence in and transparency of the markets is maintained at all times.

CMA will continue to pursue the above objective through the following strategic interventions:

i) Fostering a culture of compliance among the market intermediaries
ii) Strengthening the market inspections and surveillance mechanisms
iii) Strengthening the investigations and enforcement mechanisms
iv) Simplification of regulatory processes

5.3 ENHANCE CMA'S HUMAN CAPITAL AND OPERATIONAL SYSTEMS

To effectively deliver on its mandate in a dynamic domestic, regional and global market environment, CMA will require a highly experienced workforce operating in a conducive and efficient work environment. Since inception, CMA has endeavored to recruit and retain the best talent while ensuring that this team has the best tools at their disposal to efficiently and effectively execute their duties. However, being a relatively small organization, staff turnover tends to have a much greater impact on the availability of skills, which often take several years to develop.

Despite the gains made in building the institutional capacity of CMA over the last decade, more investment needs to be made to further enhance the quality of its workforce and operational systems. This will be critical more so if CMA is to live up to its vision of building the most vibrant, efficient and competitive center for investment in Africa. To this end therefore, CMA plans to undertake the following strategic initiatives:

i) Attract, retain and develop the requisite talent to enable CMA to effectively and efficiently deliver on its mandate
ii) Strengthen the staff performance management system
iii) Develop and maintain a records management and archiving system
iv) Automate CMA's core processes

Figure 1 shows the strategy map that illustrates the linkages between the different strategies, the goals, the mission and ultimately the vision of CMA.

Figure 1: The CMA STRATEGY MAP

VISION

To establish Uganda's capital markets as the most efficient and trusted centers for attracting and providing capital in Africa

MISSION

To foster a transparent, efficient and effective capital market in Uganda

OUR 2021 GOALS

- Increase awareness of capital markets among potential issuers, investors and key stakeholders
- Ensure capital markets laws and regulations are appropriate and simplify capital markets regulatory processes and procedures
- Develop and strengthen relationships with key stakeholders
- Enhance the capacity of market participants and intermediaries to develop the capital market

FRONTLINE STRATEGIES

Facilitate and Promote the Development of Capital Markets

Create, Maintain and Regulate an Orderly, Fair and Efficient Capital Market System

FRONTLINE STRATEGIC INITIATIVES

- Develop and Implement an Effective Communications and Capital Markets Awareness Strategy
- Ensure the Legal and Regulatory Framework Is Appropriate
- Leverage Regional and International Cooperation to further Capital Markets Development;
- Develop a Comprehensive Stakeholder Engagement Strategy
- Develop the Capacity of Market Participants and Intermediaries to Originate Capital Markets Transactions

- Fostering a Culture of Compliance among Licensed Market Intermediaries
- Strengthening the Market Inspections and Surveillance Mechanisms
- Strengthening the Investigations and Enforcement Mechanisms
- Simplification of Regulatory Processes and Procedures

SUPPORT STRATEGY

Enhance CMA's Institutional Capability

SUPPORT STRATEGIC INITIATIVES

- Attract, Retain and Develop the Requisite Talent to enable CMA Efficiently and Effectively Deliver on its Mandate
- Strengthen the Staff performance management system
- Develop and Maintain a Records Management and Archiving System
- Automate CMA's Core Processes

6. HOW WE WILL MEASURE OUR SUCCESS

STRATEGY	STRATEGIC INITIATIVES	ACTION PLAN	OUTPUTS	TARGETS	OUTCOMES	KPI's
Facilitate and promote the development of capital markets	Develop and implement an effective communications and Investor strategy	Review the current communications strategy and make recommendations for improvement	i) Review report ii) Implementation of the Revised communications and investor education strategy to increase outreach	i) Jul16 – Jun17 ii) Jul17 – Jun18	i) Increased awareness and appreciation of capital markets ii) Increase in the brand value of CMA	i) No. of people aware of capital markets ii) Brand perception of CMA
	Ensure the legal and regulatory framework is appropriate	i) Review the Collective Investment Schemes(CIS) Act and regulations ii) Develop relevant regulations for the CMA Amendment Act 2016 iii) Develop a Handbook of the frequently used capital markets laws & regulations iv) Develop regulatory guidance notes for the various laws and regulations v) Strengthen internal capacity to interpret laws and regulations	i) Revised (CIS) Act and regulations ii) Relevant regulations for the CMA Amendment Act 2016 iii) Publication of the capital markets handbook iv) Publication of regulatory guidance notes v) Enhanced capacity to internal capacity to interpret laws and regulations	i) Jul16 – Jun21 ii) Jul16 – Jun21 iii) Jul16 – Jun21 iv) Jul16 – Jun21 v) Jul16 – Jun21	i) Increased access to the capital markets by both investors and issuers ii) Laws and regulations that are better understood and facilitate capital markets growth	i) No. of capital markets products issued ii) No. of capital markets investors iii) User perception of Capital markets laws and regulations

STRATEGY	STRATEGIC INITIATIVES	ACTION PLAN	OUTPUTS	TARGETS	OUTCOMES	KPI's
	Leverage regional and international cooperation to further capital markets development	i) Adoption of international best practices in capital markets regulation & market development ii) Harmonization of laws & regulations iii) Harmonization of market supervision practices iv) Collaboration in market development initiatives	i) Adoption of international best practices in market development and regulation ii) Harmonized laws and regulations iii) Harmonized market supervision practices iv) Joint market development initiatives	i) Jul16 – Jun 21 ii) Jul16 – Jun 21 iii) Jul16 – Jun 21 iv) Jul16 – Jun 21	i) Increased cross-border capital markets activity ii) Increased development of the domestic capital markets arising out of harnessing the regional synergies	
	Develop a comprehensive stakeholder engagement strategy	Development of a comprehensive stakeholder engagement strategy	i) Stakeholder engagement strategy ii) Implementation of the Stakeholder engagement strategy	i) Jul16 – Sept 16 ii) Sept16 – Jun 21	i) Increased funding for capital markets regulation and development ii) Increased adoption of policies conducive to capital markets development iii) Increased appreciation of capital markets among key stakeholders	i) Level of funding arising out of partnerships ii) No. of policies conducive to capital markets development adopted iii) Level of appreciation of capital markets among key stakeholders
	Develop the capacity of market participants and	i) Roll-out the capital markets industry certification program ii) Develop a specific	i) Certification of Market Participants ii) Number of capital markets participants	i) Jul16 – Jun 18 ii) Jul16 – Jun 17	i) Increase in the pool of skilled market participants ii) Increase in the pool	i) No. of skilled market participants ii) No. of market

STRATEGY	STRATEGIC INITIATIVES	ACTION PLAN	OUTPUTS	TARGETS	OUTCOMES	KPI's
	intermediaries to originate capital markets transactions	training program focused on corporate finance and originating capital markets transactions iii) Review the capital adequacy requirements of approved persons	trained iii) Reviewed capital adequacy requirements for approved persons	iii) Jul16 – Jun 17	of market participants with capabilities in corporate finance and originating capital markets transactions iii) Approved Persons with enhanced capital	participants with capabilities in corporate finance and originating capital markets transactions iii) No. of approved persons with enhanced capital
Enhance and Regulate an Orderly, Fair and Efficient Capital Market System	Fostering a culture of Compliance among approved persons	Develop a Continuous Compliance Education Program for approved persons	Number of market participants in the Continuous Compliance Education Program	Jul16 – Jun21	i) Improvement in the quality of regulatory applications ii) Improvement in the compliance levels among approved persons	i) No. of high quality regulatory applications ii) No. of approved persons with high compliance levels
	Strengthen the Market Inspection & Surveillance Mechanisms	i) Develop a risk-based capital adequacy framework ii) Enhance market surveillance system	i) Implementation of the risk-based capital adequacy framework ii) Weekly market surveillance reports	i) Jul16 – Jun21 ii) Jul16 – Jun21	i) Improvement in the compliance levels of the approved persons ii) Early identification of market abuse incidences	i) No. of market abuse incidents identified
	Strengthen the Investigation &	Develop a fines, penalties and sanctions	Implementation of the enhanced fines, penalties	Jul16 – Jun18	i) Improvement in the compliance levels of	i) Level of revenue from

STRATEGY	STRATEGIC INITIATIVES	ACTION PLAN	OUTPUTS	TARGETS	OUTCOMES	KPI's
	enforcement mechanisms	framework	and sanctions framework		the market participants ii) Increased revenue from fines, penalties and sanctions	fines, penalties and sanctions
		Sign MoUs with the Police and the Directorate of Public Prosecutions (DPP) to strengthen enforcement	Signing and execution of the MoUs	Jul16 – Jun21	i) Increase in the number and effectiveness of enforcement actions ii) Increase in the quality of market investigations	i) No. of and effectiveness of enforcement actions ii) Quality of market investigations
	Simplification of regulatory processes and Procedures	Review the regulatory processes and procedures	Implementation of the recommendations of the review process	Jul16 – Jun17	Reduction in the turnaround times of regulatory approvals	Average turnaround time for regulatory approvals
Enhance CMA's human capital and operational systems	Attract, retain and develop the requisite talent to enable CMA efficiently and effectively deliver on its mandate	Undertake a comprehensive institutional assessment of CMA	i) Institutional assessment report ii) Implementation of the recommendations from the Institutional assessment	i) Jul16 - Jun17 ii) Jul17– Jun21	i) Increased operational efficiency and effectiveness ii) Reduction in staff turnover	i) Level of operational efficiency and effectiveness ii) Level of staff turnover
		Develop a talent development policy and program	i) Talent Development Policy ii) Implementation of the talent development program	i) Jul16 - Jun17 ii) Jul16 – Jun21	i) Increase in the size of the pool of potential CMA Staff ii) Increase in the quality of CMA staff iii) Reduction in staff turnover	i) Size of the pool of potential CMA Staff ii) Level of quality of CMA staff iii) Level of staff turnover

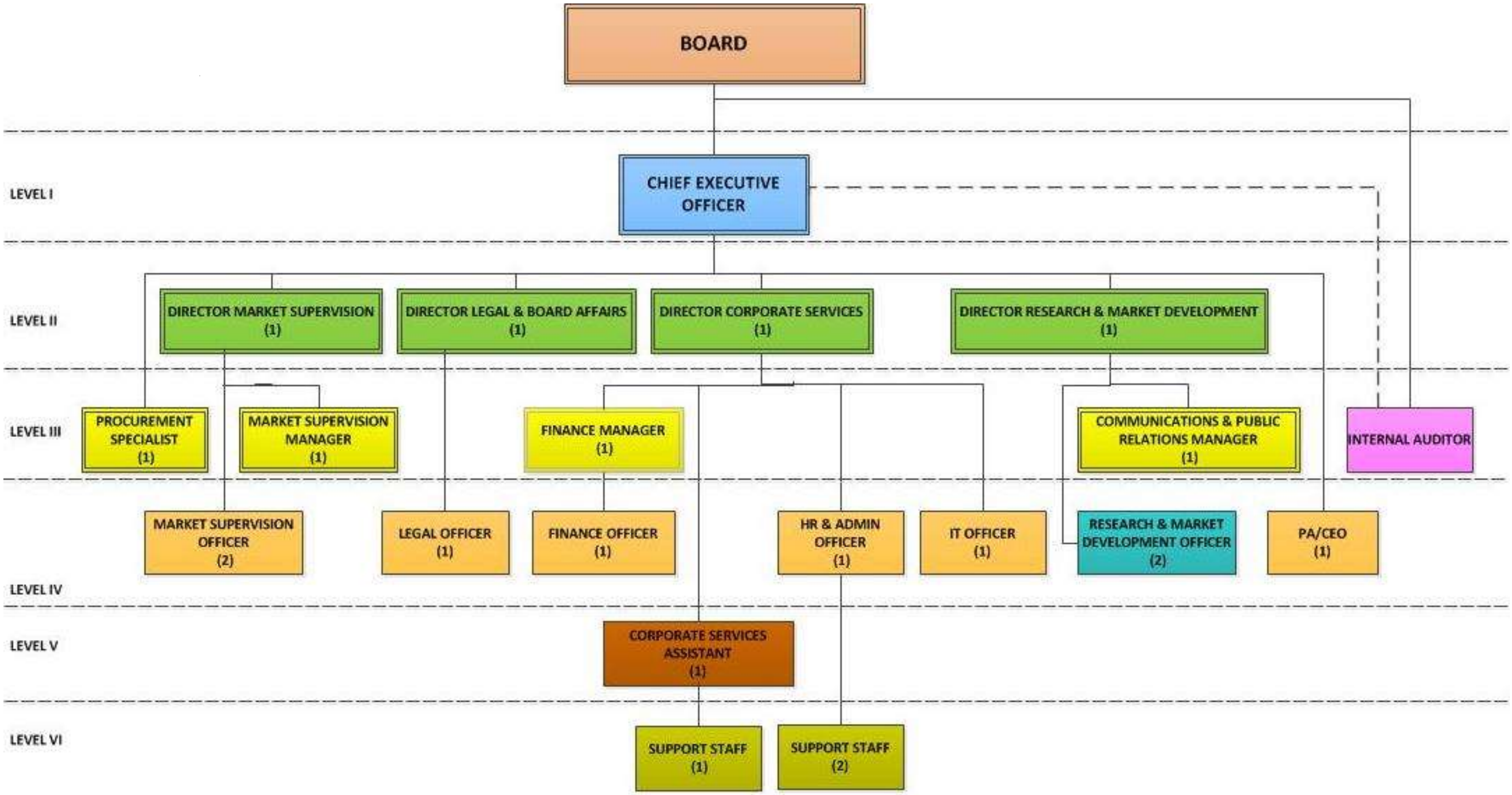
STRATEGY	STRATEGIC INITIATIVES	ACTION PLAN	OUTPUTS	TARGETS	OUTCOMES	KPI's
	Strengthen the Staff performance management system	Review the staff performance management system	i) Review report ii) Implementation of the recommendations	i) Jul16 – Jun17 ii) Jul16 – Jun18	Increase in the productivity and performance of CMA staff	Level of productivity of CMA staff
	Develop and maintain a Records management and archiving System	Develop a records management and archiving system that enhances records retrieval by board and management	A records management and archiving system	Jul16 – Jun17	Increase in the quality of records management and archiving	Efficient CMA's records management and archiving system
	Automate CMA's core processes	i) Undertake a comprehensive review of CMA's processes ii) Automate the core processes	i) Review report with recommendations for automation ii) Automation of the core processes	i) Jul16 – Jun17 ii) Jul17 – Jun20	i) Increase in the efficiency and effectiveness of CMA	

Assumptions

Sufficient financial, technical and human resources, Timely disbursement of financial resources, Timely and quality execution of the various activities in the strategic plan, stable macro–economic and political environment, Sufficient political will

ANNEXES

Annex 1: The Current CMA Organizational Structure



KEY

ADMIN – Administration

HR – Human Resource

ICT – Information Technology

PA – Personal Assistant

PDU – Procurement & Disposal Unit

LEVEL V – Diploma Holders

LEVEL VI – Below Diploma Level

Outsourced Service

Partially Filled – positions require 2 staff but currently have 1

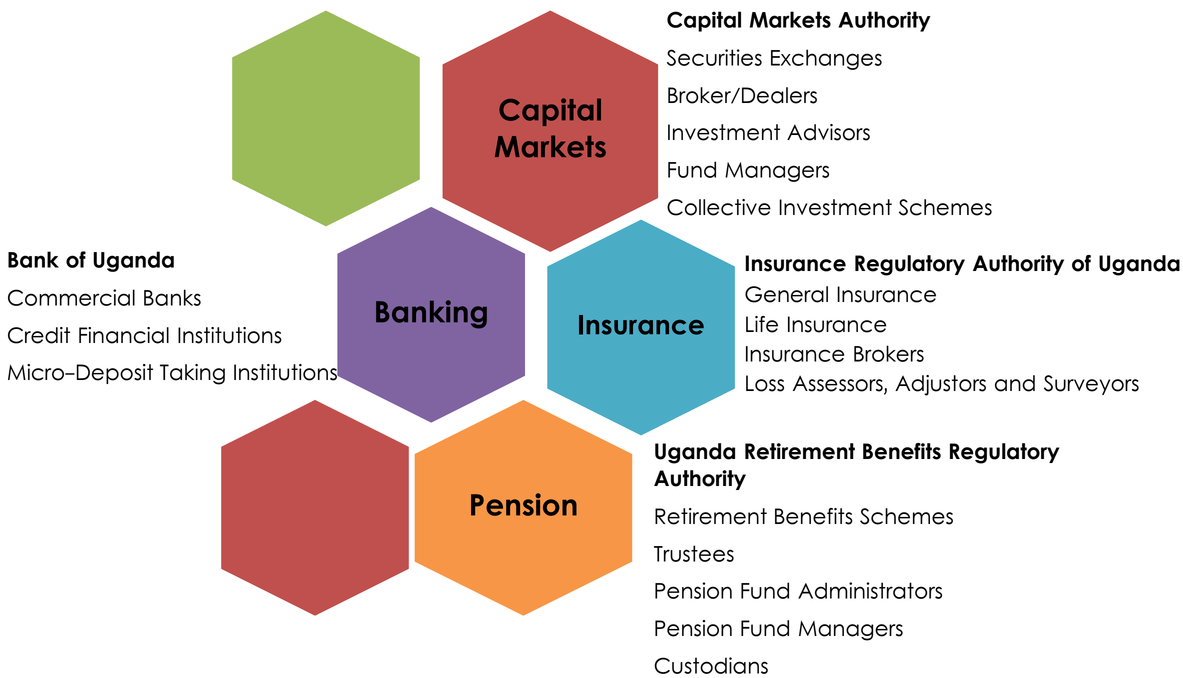
The **Senior Officer** level is incorporated in the **Officer** grade as room for growth dependent on experience, competencies, qualifications and length of stay in the CMA. The two positions will vary in their remuneration structure.

A PRIMER ON CAPITAL MARKETS

BACKGROUND

Capital markets form part of the broader financial system in Uganda that comprises of banking, insurance, pension and micro-finance (see figure 1).

Figure 1: Structure of Uganda's Financial System



The capital markets facilitate the allocation of capital from investors who have savings to issuers in the private and public sectors seeking for financing for business growth and public sector projects. Banking plays the same role of financial intermediation however the capital markets differ from banking in the following aspects:

i) In the capital markets the issuers have direct access to the investors unlike in banking where banks intermediate between the depositors and the issuers seeking for financing

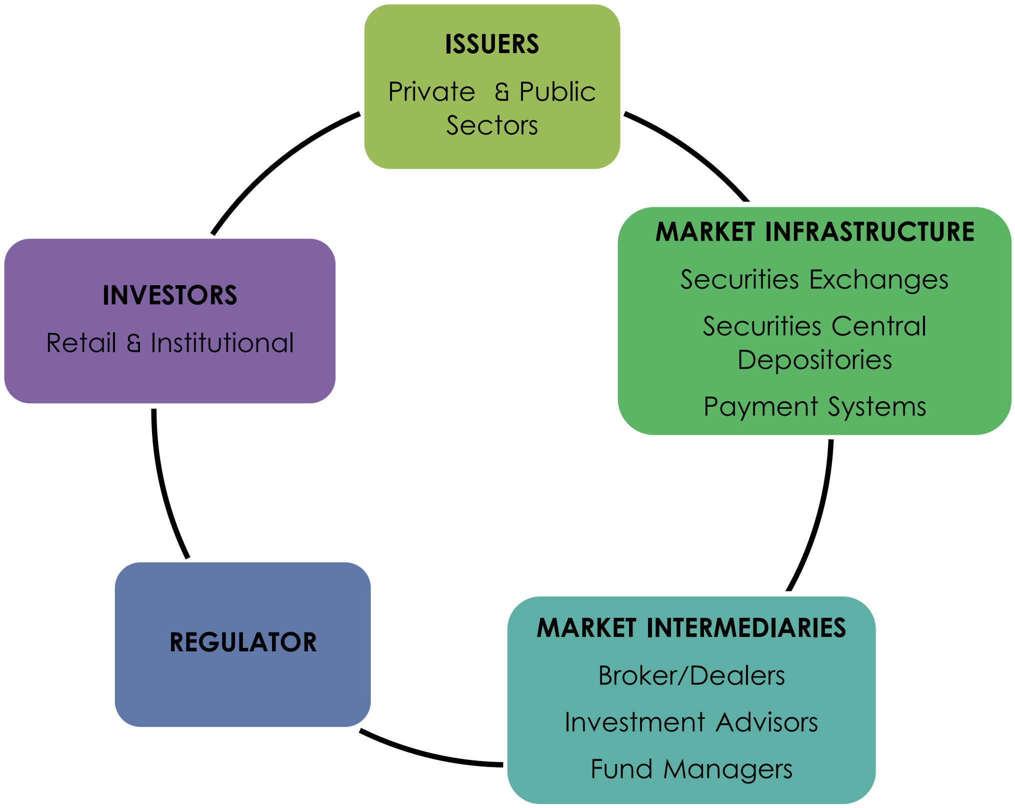
ii) The capital markets provide both debt and equity financing opportunities whereas banking offers mainly debt financing.

iii) The capital markets provide longer term financing than banking. For instance the term loans tenures from Ugandan banks usually do not exceed 7 years whereas the corporate debt tenures in the capital markets have averaged 10 years. However they could even go as longer as 15 years.

CAPITAL MARKETS ECO–SYSTEM

The capital markets eco–system comprises of five broad categories of participants; Investors, Issuers, market infrastructure providers, market intermediaries and the regulator (see figure 2)

Figure 2: The Capital Markets Eco-System



Issuers: The issuers are the companies in the private and public sectors and the government which seek for capital to finance business and public sector projects respectively.

Investors: These are the individuals and institutions who seek for opportunities in the capital markets to invest their savings. The institutional investors in the capital markets are mainly composed of pension funds, life insurance companies and collective investment schemes. These mobilize savings from individuals and collectively invest them in the capital markets. They enable individuals leverage the benefits of economies of scale that come with numbers while also benefiting from the diversification that these institutional investors provide.

Regulator: This is in most cases a government agency mandated to ensure that the capital markets operate efficiently and fairly while minimizing the incidences of market abuse. It exercises its mandate through licensing the right market intermediaries, regularly monitoring the compliance of these intermediaries to the set laws and regulations and enforcing the law where there are breaches.

Market Intermediaries: Market intermediaries perform two major functions; facilitating the raising of capital through linkage of investors to issuers and the trading of securities on the securities exchanges. They on one hand advise investors on the most appropriate capital markets investments and on another hand advise issuers on the most appropriate mode of raising funds in the capital markets.

Market Infrastructure: The market infrastructure provides the platform for the execution of capital market transactions. The securities exchanges provide a platform for trading securities in the secondary market. These securities will have been issued in the primary market by issuers to raise capital. The secondary provides an opportunity for investors to exit their investment and for those investors who did not participate in the primary market to invest in the securities listed on the securities exchanges. The other critical infrastructure in the capital markets are the securities central depositories which clear and settle the securities traded on the securities exchanges and the payment systems which settle the payments for the traded securities.

CAPITAL MARKETS PRODUCTS

There are two main products in the capital markets; equity securities and debt securities. Equity securities entitle the investor to a shareholding in the investee company where as debt securities only entitle investor to regular interest and principle payments for a specific period of time as is the case with a typical bank loan.

EQUITY SECURITIES

An investment in equity securities provides the investor shareholding in the company in proportion to their investment. Unlike the case of bank loans or debt securities, the company issuing equity securities is not obliged to pay back the money received from the investors. It therefore usually considered as permanent capital. Investors can only recover their investment through either dividends of profits declared or through sale of their investments on the secondary market.

Why Equity Securities?

i) Provide access to long term capital for growth.
ii) Provide access to secondary equity financing through the ability to issue further shares (*rights issues, secondary offers and bonus issues*).
iii) Ability to attract and retain talent through a range of compensation mechanisms such as stock options and stock purchase plans.
iv) Enhanced access to debt financing due to disclosure requirements.
v) Increased prestige, brand image, public profile and credibility for the company.
vi) Enhanced benchmarking of operations against other public companies from the same industry.
vii) Provision of an exit strategy and liquidity for shareholders.
viii) Facilitate future acquisitions of other businesses which may be paid for using shares.
ix) A company achieves a more accurate valuation than a private enterprise since greater disclosure of information reduces uncertainty around performance of the business.
x) High visibility, transparency and liquidity can enable a company draw high quality shareholders such as institutional and strategic investors.

Challenges & Risks of Issuing Equity Securities

i) High costs due to initial and on-going expenses, including payments to external advisors for regulatory compliance and maintenance of listing status.

ii) Potential loss of control as the company might require shareholder control for material transactions.

iii) Loss of confidentiality due to the high degree of disclosure and transparency required of public companies

iv) Short-termism and pressure to keep stock price up which may be incompatible with the company strategy.

v) Increased scrutiny by regulators and the public

vi) The company could be subjected to a takeover bid especially where the original owners retain minimal holdings.

DEBT SECURITIES

Debt securities just like bank loans provide the investor with regular payments of interest from their investment and a principal payment either at the end of or during the debt period. Unlike equity securities the issuer has an obligation to pay back the funds raised with interest except that they in this case maintain control of their business. Debt securities are also referred to as bonds. Corporate bonds for private companies and government bonds for debt securities issued by government.

Why Debt Securities?

i) Bonds increase the options available for long term capital for growth.

ii) Bond issuance can be done through shelf-offering where the issuer issues the corporate bond in portions without having to register a new information memorandum for each portion issued.

iii) Bonds allow flexibility as they can be structured in many ways to suit the needs of issuers in terms of tenure, floating or fixed coupon payment etc.

iv) Compared to typical bank loans that require principal to be repaid in installments, bond principal is paid as a lump sum.

v) Shareholders maintain control as corporate bond issuance does not lead to dilution of ownership.

vi) Bonds can increase company prestige, brand image, public profile and credibility.

Challenges & Risks of Issuing Debt Securities

i) Financial risk as the issuer has a payment obligation enforceable by law. Coupon and principal have to be repaid even if the company runs into financial difficulty.

ii) High costs due to initial and on-going expenses, including payments to external advisors for regulatory compliance and maintenance of listing status.

iii) Loss of confidentiality due to the high degree of disclosure and transparency required of issuing companies.

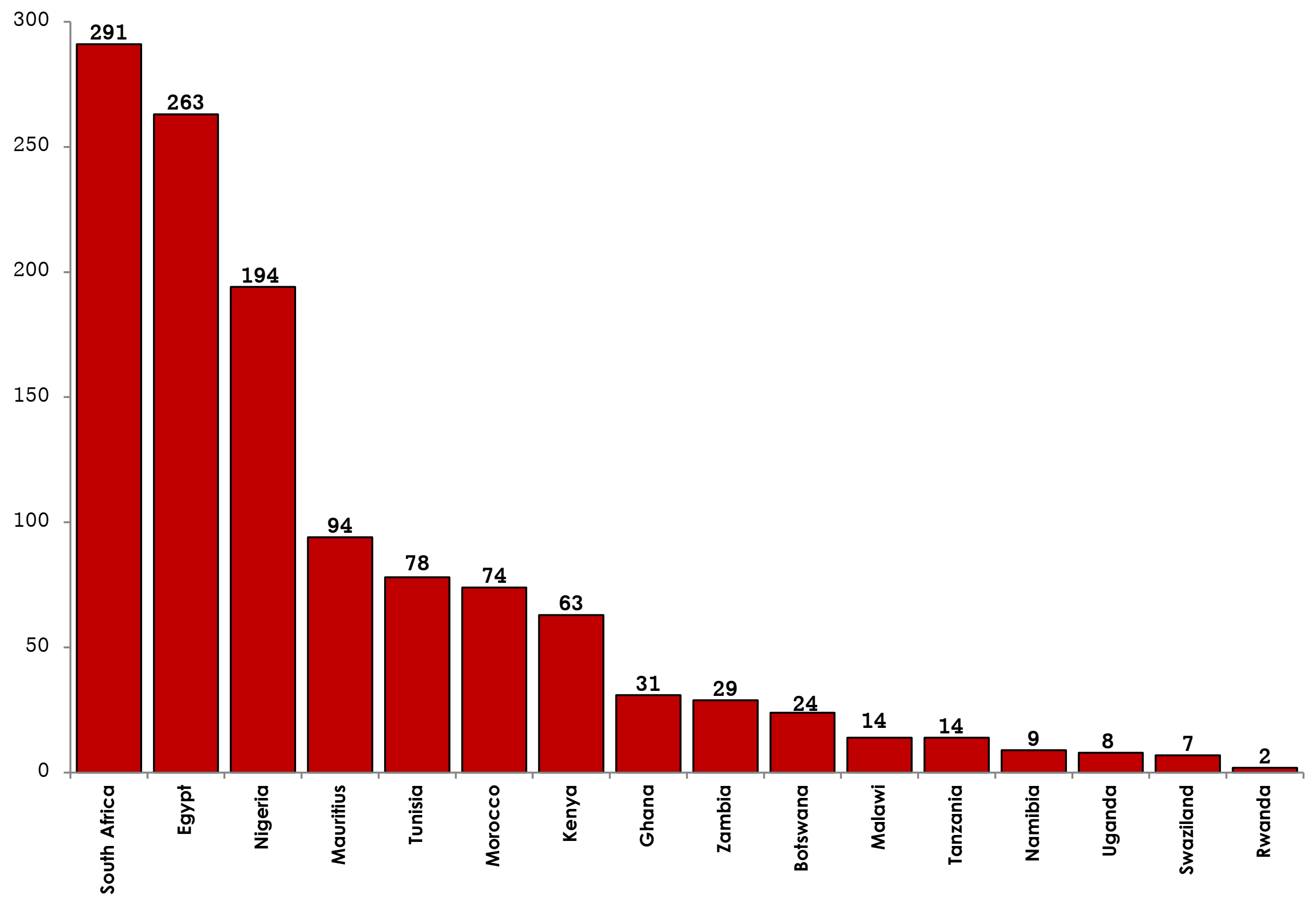
iv) Large bullet payment as a large amount is needed to repay the principal when the bond matures.

v) Downgrading of credit rating which may affect subsequent borrowings.

CAPITAL MARKETS DEVELOPMENT: A CROSS COUNTRY COMPARISON

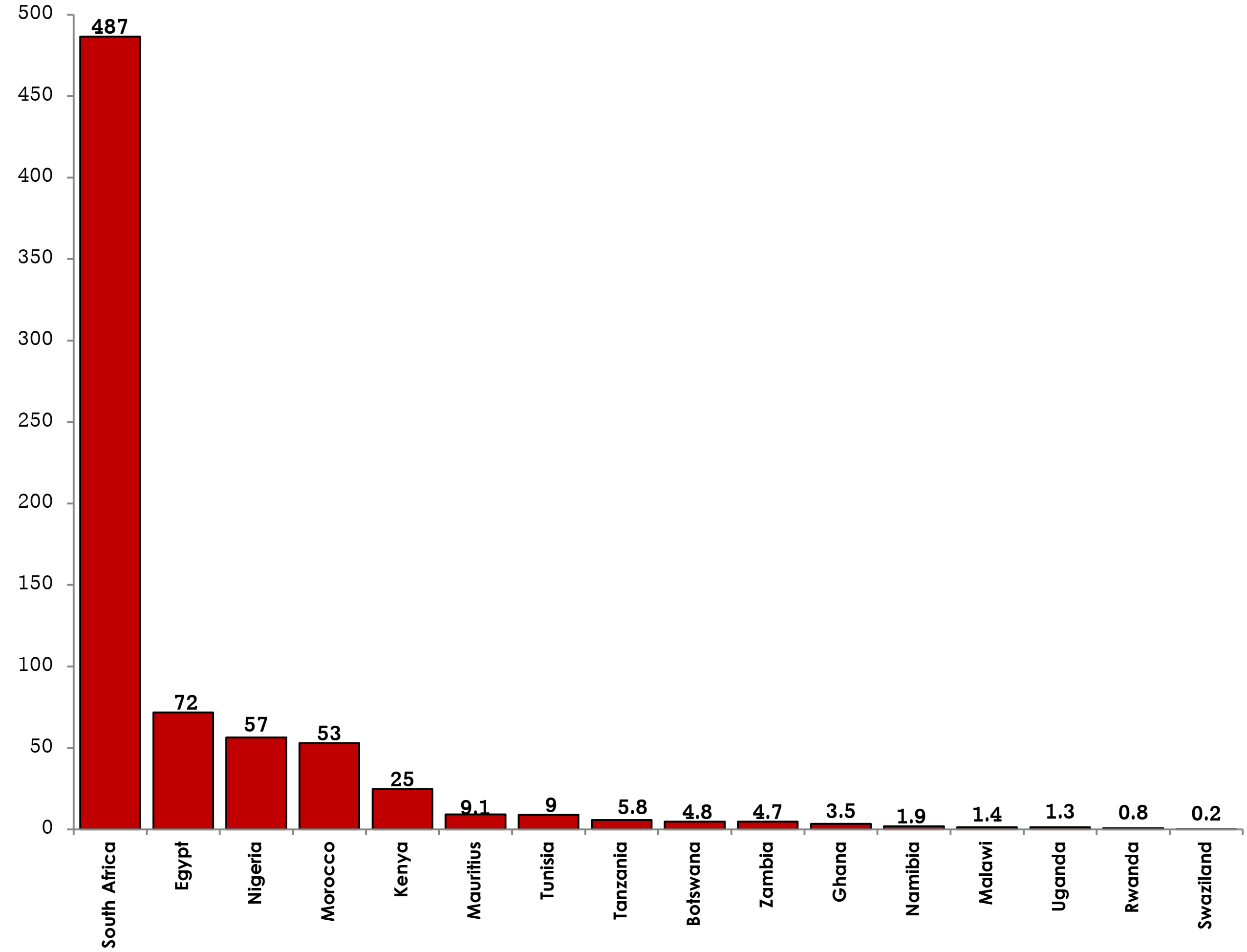
There are over 15 African countries with operational capital markets. With the exception of South Africa, Egypt and Nigeria most of the other African capital markets are still small with a minimal contribution to their respective economies (See figures 3–5). However with the right economic policies in place and increased access to the capital markets by the different issuers and investors, these markets are bound to grow bigger and make a more significant contribution to Africa's economic growth and development.

Figure 3: Number of Domestic Listed Companies in Selected African Capital Markets (2014–End of Period)



Source: African Financial Markets Handbook 2015. Standard Bank Group

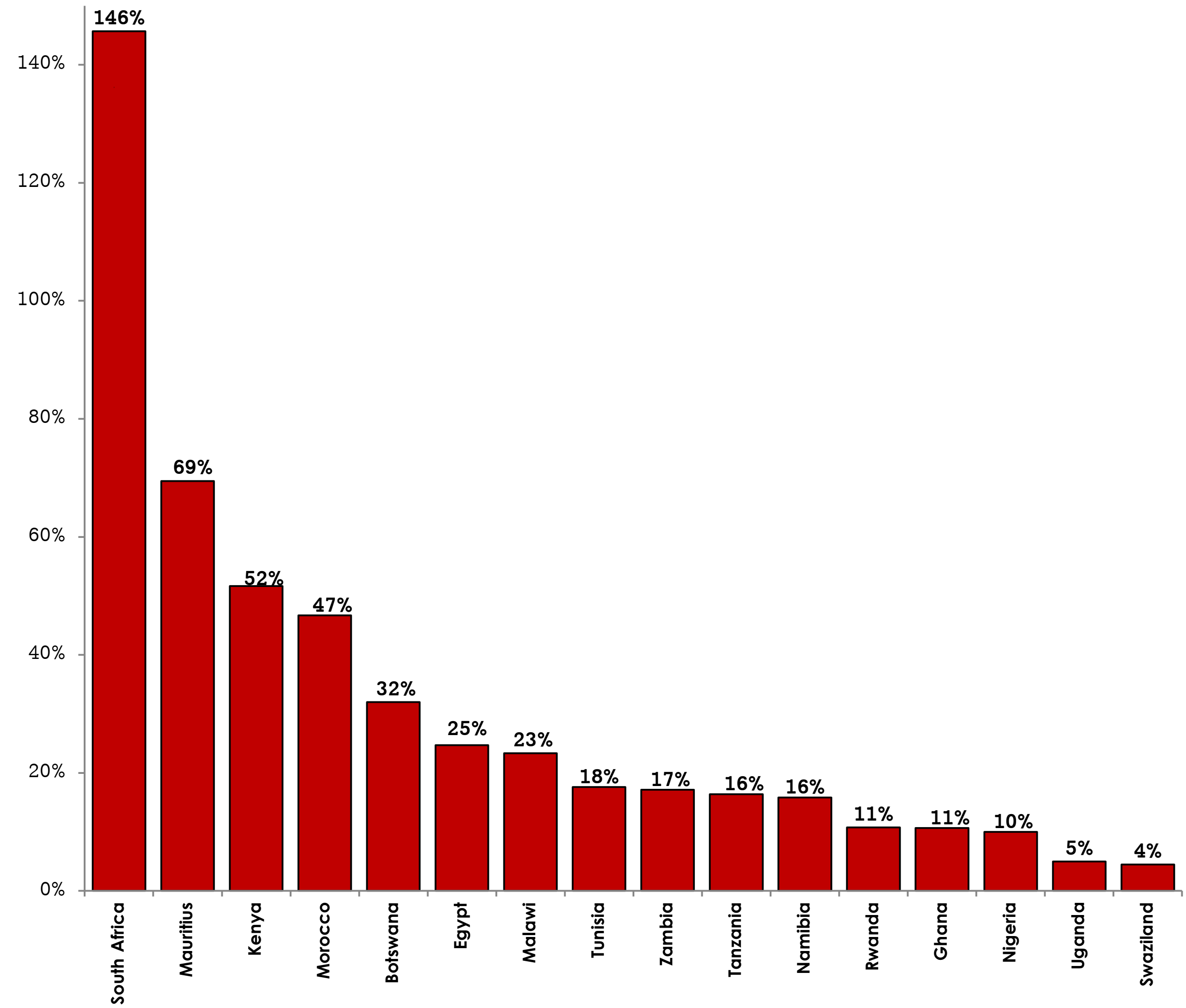
Figure 4: Domestic Market Capitalization (Equity Market Size) of Selected African Capital Markets (2014–



End of Period)

Source: African Financial Markets Handbook 2015. Standard Bank Group

Figure 5: Proportion of Domestic Market Capitalization to GDP (%) of Selected African Capital Markets (2014–End Period)



Source: African Financial Markets Handbook 2015. Standard Bank Group