

# **AN OVERVIEW OF THE TEN (10) YEAR CAPITAL MARKETS DEVELOPMENT MASTER PLAN**

***28<sup>th</sup> February 2017***

# BACKGROUND



- ❖ The Master Plan is an industry blue print that provides clarity on how the capital markets in Uganda will be transformed over the next ten years. 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 resp. as a way of attracting more International Capital to meet financing needs for both the government and private sectors.
- ❖ Prior to the development of this plan, a market assessment was undertaken by Cadogan consultants in 2015 to identify progress made in Uganda’s capital markets, their present scale, and the issues therein.
- ❖ CMA would like to thank all stakeholders that contributed to the development of the Master Plan through interviews that informed the final draft.
- ❖ The Master Plan delineates why capital markets development matters for Uganda, the recommendations for change, and actions for implementation.
- ❖ The Master Plan heavily draws from the experience of Malaysia – a country that has successfully implemented two Capital Markets Master Plans to-date.

# Why capital markets development is important for Uganda



- ❖ To provide long-term sources of funding for both government and the private sector to complement existing short and medium term sources of capital.
- ❖ Provide alternative investment avenues/ platforms for investors. The savings pool in Uganda is increasing very fast and needs to be channeled into a more diverse array of capital market investments.

Annual growth of contractual savings in Uganda

Savings (UGX bn)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
NSSF	697	911	1,122	1,337	1,703	2,129	2,743	3,480	4,404	5,570
Assets under Fund Managers licensed by CMA	104	185	223	332	390	453	492	843	1,144	1,407
<b>Total</b>	<b>801</b>	<b>1,096</b>	<b>1,345</b>	<b>1,669</b>	<b>2,093</b>	<b>2,582</b>	<b>3,235</b>	<b>4,323</b>	<b>5,548</b>	<b>6,977</b>
<i>Annual Increase</i>		36.83%	22.72%	24.09%	25.40%	23.36%	25.29%	33.63%	28.34%	25.76%

Source: CMA and NSSF annual reports

# Key constraints to development of capital markets in Uganda



- ❖ Limited supply of securities or few issuers.
- ❖ The legal and regulatory framework contains duplicative procedures and lacks flexibility to allow for innovation and product development.
- ❖ Presence of a few domestic institutional investors.
- ❖ A small pool of capital markets professionals (intermediaries)
- ❖ Adequate but duplicative infrastructure comprising of BOU central securities depository and the two individual stock exchange depositories.

# Recommendations and actions



**To address the above key constraints, the Master Plan sets out 27 recommendations and a series of 95 actions that seek to drive Uganda's capital markets forward**

# Purpose of today's meeting

- ❖ All the recommendations outlined hereafter were deliberated upon and approved during two workshops held with the technical committee in November 2016 and February 2017
- ❖ The technical committee consisted of key stakeholders including, *inter alia*, BOU, MoFPED, ICPAU, USE, ALTX, EPRC, Uganda Law Society, fund managers, and broker/dealers. Their views have been duly incorporated into the Master Plan.
- ❖ CMA now seeks feedback from you pertaining to these recommendations prior to final approval and publication of the Master Plan.

# Synopsis of major recommendations within the Master Plan



## Recommendation 1: Structural reform

Government should make a long term policy commitment to doing everything that is necessary to provide a conducive framework for capital markets development. Government needs to:

- ❖ Develop the human capacity within MoFPED to prioritize the Master Plan's implementation and effectively deliver upon that commitment
- ❖ Put in place financial resources necessary to deliver upon the above commitment
- ❖ Government should ensure that all formerly state owned entities like Kinyara, Kakira and Tororo Cement are listed on the stock exchange
- ❖ Government should impose mandatory listing for companies in specific and strategic sectors. These can include all tier 1 banks, telecommunications firms, and large energy companies.

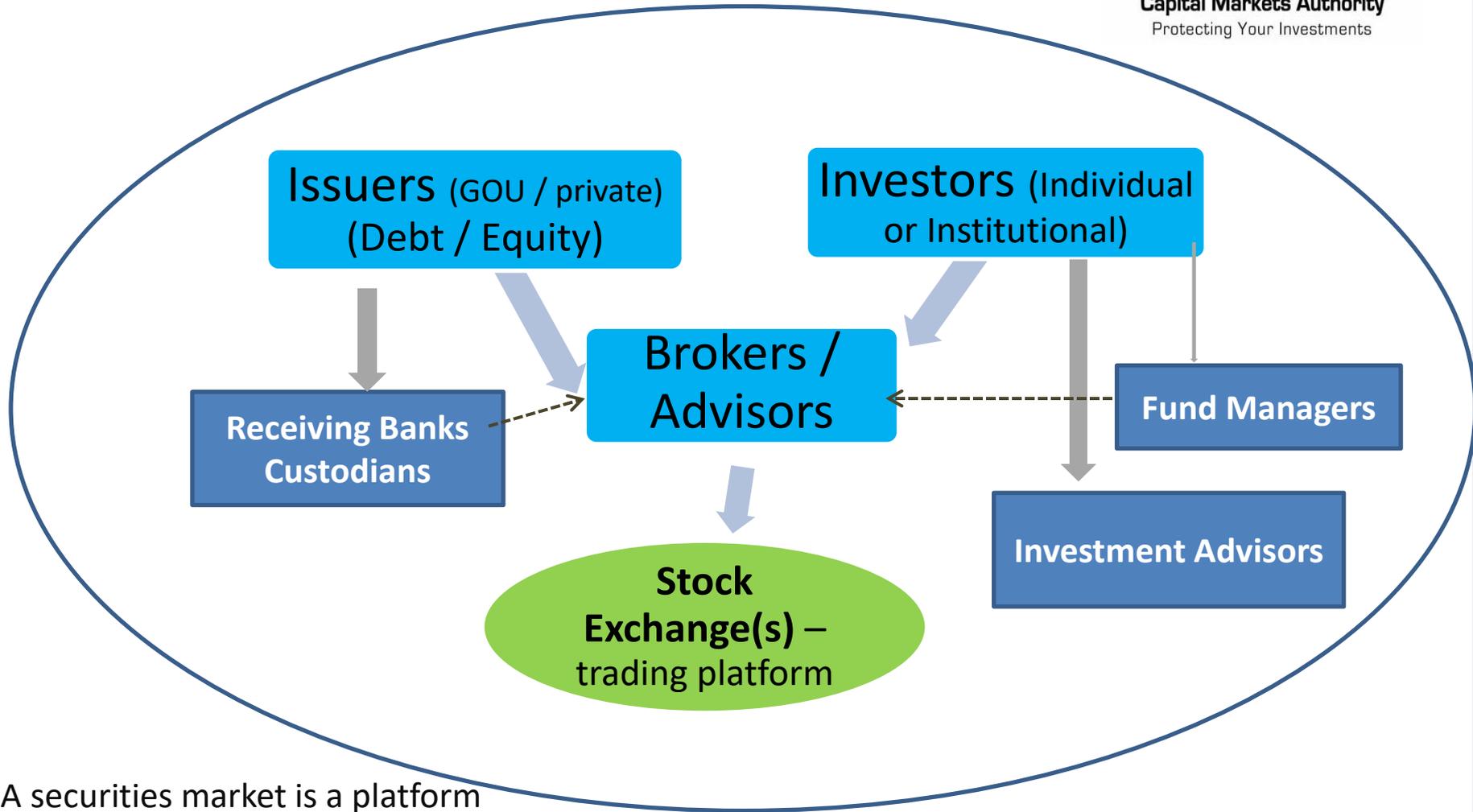
# Synopsis of major recommendations within the Master Plan



## The rest of the recommendations outlined in the Master Plan are targeted at:

- 1) Facilitating issuer access to alternative / non-bank financing in order to reduce dependence on bank financing, which will ultimately reduce the Government and Private Sector's cost of borrowing (7);
- 2) Improving efficiency within the capital markets ecosystem (5); and
- 3) Deepening the pool of formal savings and investment opportunities within the economy (2).

# Overview of Securities Markets Operations



A securities market is a platform where financial securities are issued & individuals & institutions trade securities – equity & debt

# Facilitating issuer access to alternative financing & lower cost of borrowing



**Recommendation 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.

- ❖ Improve debt market operations at the Ministry of Finance Planning and Economic development.
- ❖ Enhance co-ordination between the Debt Management Office and Bank of Uganda
- ❖ 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,

# Facilitating issuer access to alternative financing & lower cost of borrowing



**Recommendation 3**: Increase trading of government securities in the secondary market

- ❖ Conduct all government bond secondary trading on the local stock exchanges and subject to regulation by the CMA e.g. Armenia
- ❖ Commence secondary trading of Government securities through a private sector 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.
- ❖ Incentivise primary dealers to provide secondary market liquidity by ensuring that they meet their primary dealer obligations
- ❖ Create enabling environment that will support securities lending by providing a legal and operational framework that covers different categories of investors notably pension funds.

# Facilitating issuer access to alternative financing & lower cost of borrowing



## **Recommendation 4**: Facilitate municipal and infrastructure access to domestic and international savings

- ❖ Ensure effective and timely implementation of the International Public Sector Accounting Standards (**Accountant General and ICPAU**)
- ❖ 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
- ❖ 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
- ❖ 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

# Facilitating issuer access to alternative financing & lower cost of borrowing



## **Recommendation 5: Remove tax disincentives in order to encourage companies to raise capital and list on the main or growth markets**

- ❖ Remove withholding tax on bonds with maturities of five years and above (MoFPED)
- ❖ Lower withholding tax on dividend payments (10% in Kenya, 15% in Uganda)
- ❖ The Ministry of Finance to grant a three year tax preferential corporation tax rate to companies prior to listing on an exchange; companies that issue bonds; and to companies that obtain private equity investment.
- ❖ 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
- ❖ Companies that have been identified as tax defaulters should be directed to get listed in order to qualify for tax amnesty on their arrears
- ❖ Eliminate tax and other constraints to investment of collective savings such as those mobilized through savings groups registered as companies

# Facilitating issuer access to alternative financing & lower cost of borrowing



**Recommendation 6:** Create greater awareness of potential for public and private issuance and its benefits

**Recommendation 7:** Improve financial reporting by developing capacity for corporate financial reporting in order to improve the likelihood of companies to raise capital in financial markets

- ❖ Enforce compliance with financial reporting standards as required in the Companies Act
- ❖ Provide cost efficient and timely access to resulting disclosure through the Uganda Registration Services Bureau
- ❖ URSB to 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 Capital Markets Authority.

# Facilitating issuer access to alternative financing & lower cost of borrowing

**Recommendation 11**: Enact measures to enable municipal, government agency & infrastructure financing through capital markets in order to meet Uganda's significant infrastructure needs.

- ❖ Amend the Local Governments Act to remove the 25% revenue limit on issuance of securities
- ❖ Review the NSSF & URBRA investment regulations to allow them more flexibility to invest through a wider range of investment vehicles e.g. Infrastructure SPV's
- ❖ Institute a policy requirement for all revenue earning projects to be partly financed in UGX

# Improving efficiency within the capital markets ecosystem



**Recommendation 12**: Streamline and simplify requirements for corporate bond issuance

**Recommendation 15**: Reduce settlement risk in order to become more attractive to a wider range of foreign institutional investors.

- ❖ 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

# Improving efficiency within the capital markets ecosystem

**Recommendation 16**: Rationalize central securities depository functions in order to make Ugandan markets more efficient, cost effective and competitive

- ❖ It would have been ideal to have a single integrated trading, settlement and payment system. The presence of multiple systems (Bank of Uganda for government securities, Uganda Securities Exchange Central Depository and ALTX) has led to investment in systems that will remain under-utilised. There is need to revisit the issue of market infrastructure and explore interim measures such as linking the existing three depositories into one for clearing and settlement.

# Improving efficiency within the capital markets ecosystem



**Recommendation 19**: 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

**Recommendation 21**: Review Licensing & Supervision of Market Participants in order to achieve greater efficiency & cost effectiveness - in a market characterized by low revenues & limited securities transactions, multiple regulatory & compliance requirements increase the cost of doing business.

❖ 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, compliance

# Deepening the pool of formal savings and investment opportunities



**Recommendation 25**: Introduce a new government savings product that will encourage formalization of savings; provide Ugandan citizens with a secure means of saving offering competitive returns; and provide government with an additional source of funding.

The proposal is to develop a savings product that is not a bond and is: simple to understand, avoids administrative complexity; offers better rates than banks; is guaranteed by government; does not require a bank account to subscribe to it; could be distributed using the mobile money platform; could reach non-bank customers; and encourages the savings habit.

# Deepening the pool of formal savings and investment opportunities

## **Recommendation 27**: Implement pension reform in order to diversify the investor base.

- ❖ Reform the pension sector as envisaged in the Second National Development Plan, making the Public Sector Pension Fund contributory
- ❖ Evaluate 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 in retirement

# Implementing Partners

**The steering committee will monitor master plan implementation through the following institutions:**

- ❖ MoFPED
- ❖ Bank of Uganda
- ❖ USE
- ❖ URBRA
- ❖ CMA
- ❖ ICPAU
- ❖ Fund Managers and CIS schemes
- ❖ Broker/dealers
- ❖ URSB
- ❖ MoLG

# Way forward

If all members of the committee are in agreement, CMA requests that:

- ❖ The recommendations outlined are supported and adopted by the Steering Committee for onward submission to the Financial Markets Development Committee (FMDC) that is chaired by the Governor BOU
- ❖ We request for full support through your respective institutions to aid in the necessary policy formulation
- ❖ CMA's financing needs, which will increase significantly during implementation of this Master Plan, are given priority in budget formulation.