

Uganda's Capital Markets Development Master Plan 2016/17 - 2026/27

Abridged Version



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 blue print 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 and attract inflows from international investors, the master plan seeks to position Uganda's capital markets in the the Morgan Stanley Capital International Frontier Market Category 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. 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. Additionally, the plan also makes recommendations that seek to improve the choice of investments for both retail and institutional investors in Uganda and internationally. This master plan will ensure that the capital markets are 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 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 summary of the ten year capital markets development masterplan in the following pages.

For God and My Country!

Hon. Matia Kasajja
Minister of Finance, Planning and Economic Development

Background

Main Objectives of the Master Plan Recommendations

1

Facilitating issuer access to alternative/ non-bank financing in order to reduce dependency on bank financing

2

Improving efficiency within the capital markets ecosystem

3

Deepening the pool of formal savings and investment opportunities within the economy

The Capital Markets Development Master Plan was developed with support from Financial Sector Deepening Africa (FSDA). Cadogan Financial Limited and associates took the lead in the development of the Master Plan which was developed through a wide consultative process.

The project of developing the 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.

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. The master plan clearly delineates why capital markets development matters for Uganda, recommendations for change and actions for implementation.

Context to Development of Capital Markets

The Second National Development Plan targets an increase in economic growth rate from 5.2% in 2012/13 to 6.3% in 2019/20 and 8.2% by 20140.

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 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.

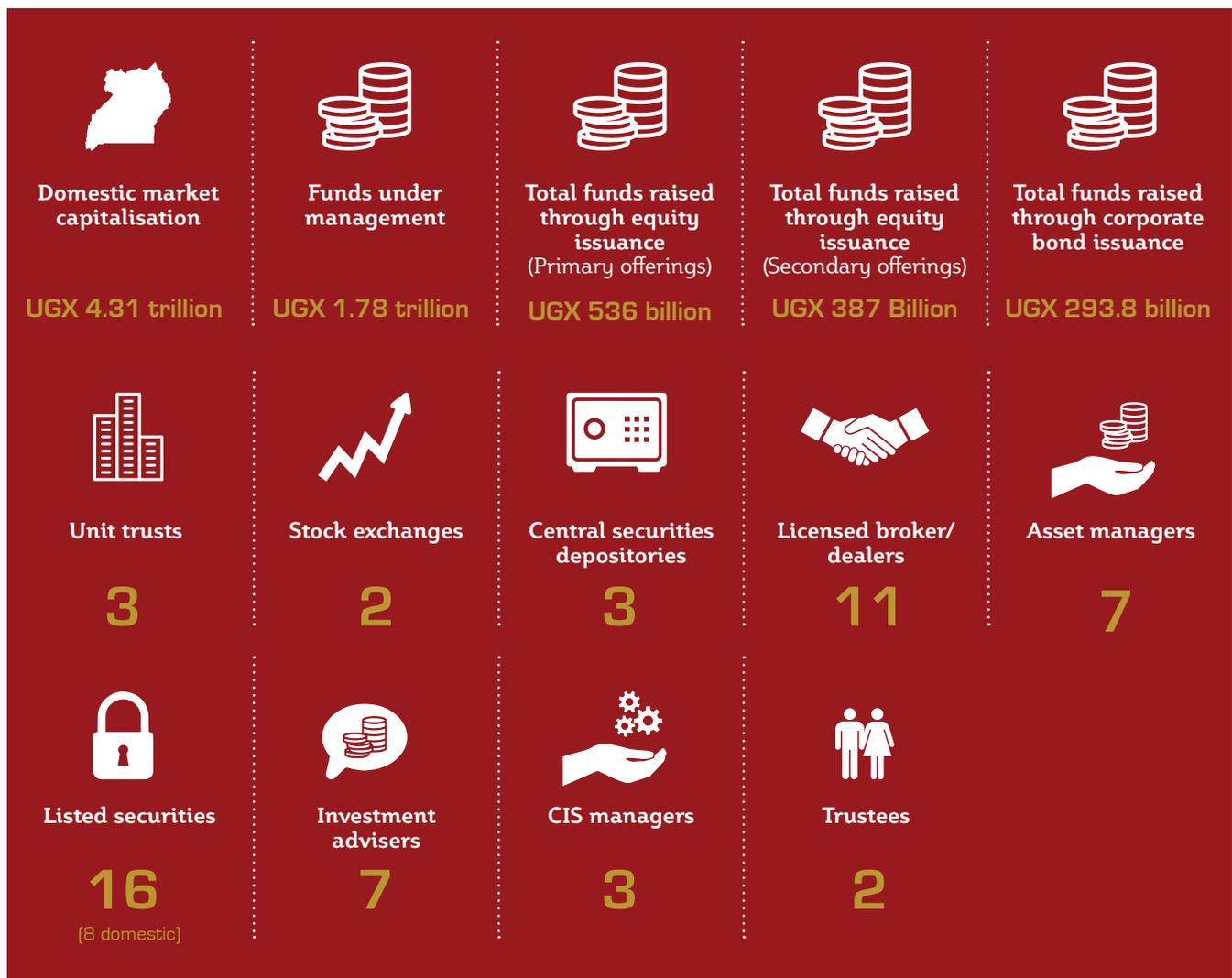
Current State of Uganda's Capital Market

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 Ministry of Finance, Planning and Economic Development.

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.

Key statistics in Uganda's capital markets - As at December 2016



Overview of the Masterplan

Factors Hindering the Growth of Uganda's Capital Markets

-  Unsuitable legal and regulatory framework
-  Limited supply of securities
-  Limited/ no public sector issuance of securities
-  Narrow range of investors
-  Small pool of market intermediaries
-  Duplicative market infrastructure
-  Limited information



Our Goal/Vision

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 sectors.

The objectives are to:



Recommendations

Structural Reform

1. Long-term policy commitment by Government to provide a conducive environment for capital markets development and adequate resourcing

Expanding Issuance and Enabling More Capital Raising

2. Improve access to government bond markets in the primary market and widen participation in them
3. Increase trading of government securities in the secondary market
4. Facilitate municipal and infrastructure SPV's access to domestic and international savings
5. Streamline and simplify requirements for corporate issuance
6. Remove tax dis-incentives
7. Strengthen alternative market tiers such as the GEMS
8. Create more awareness of potential for public and private issuance and its benefits
9. Improve financial reporting by developing capacity for corporate financial reporting
10. Improve potential for capital raising for companies
11. Enable issuance to be targeted at different client categories with different offering procedures and disclosure

Widening the Investor Base and Choice

12. Improve the information available to investors
13. Make investors more aware of capital markets opportunities and their benefits
14. Introduce a new government savings product (not a bond) to encourage formalization of savings
15. Attain frontier emerging market status
16. Enable a wider range of institutional investors to function effectively
17. Implement pension reforms

Improve Effectiveness of Market Infrastructure

18. Minimize duplication of activities between the exchanges and CMA
19. Reduce settlement risk
20. Rationalize central securities depository functions

Enhancing the Quality of Intermediation

21. Improve the capacity and ability of market intermediaries to service the needs of issuers and investors
22. Develop the capacity of the regulator to support implementation of this Plan

Improving the Legal, Regulatory and Supervisory Environment

23. Review and amend the regulatory framework for issuance of securities
24. Develop the legal framework for cross border market activity
25. Address constraints to collective investment scheme and other product development
26. Enact measures to enable municipal, government agency and infrastructure financing through capital markets
27. Review licensing and supervision of market participants achieve greater efficiency and cost effectiveness

Implementation

Structure of implementation



The Capital Markets Development Steering Committee will be the high level forum to synchronise activities; take overall responsibility for implementation of the Master Plan; facilitate the work of the Secretariat and sub-committees; publish an annual progress report and; identify, recommend and approve funding options as necessary.

The Issuance Sub-committee will be responsible for improving access to long term finance; making provision of long term capital more cost effective and efficient and; facilitating improved flow of long term finance.

The Investor Sub-committee will be charged with improving availability of long term finance.

The Legal Sub-committee will be responsible for maximising potential for provision of long term finance.

The Secretariat will provide administrative support to the Steering Committee and Sub-committees; co-ordinate implementation; monitor, evaluate and report progress on implementation to the Steering Committee.

Phased implementation

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<ul style="list-style-type: none"> Strengthen capacity Develop tiered streamlined issuance requirements Improve awareness Agree fundamental reform project Undertake studies identified 										
			<ul style="list-style-type: none"> Amend legal, regulatory, and fiscal reporting frameworks Rationalize depositories Capacity building Raise awareness Introduce government retail savings product Strengthen alternative markets 							
						<ul style="list-style-type: none"> Fully implement financial reporting standards for government and companies Enforce compliance and disclosure Raise awareness of issuance and growth market 				

Measuring progress

Key metrics of capital markets

Type of finance	Numbers	Value/other measure
Public Equity	<ul style="list-style-type: none"> Main market – new listing Main market – secondary offering 	<ul style="list-style-type: none"> Market capitalisation Equity main market Equity growth market
	<ul style="list-style-type: none"> Growth market – new listing Growth market – secondary offering Growth market – introduction 	
Private equity	<ul style="list-style-type: none"> Total amount raised in year 	
Listed SME/ Venture Funds	<ul style="list-style-type: none"> Total amount raised in year 	<ul style="list-style-type: none"> Market capitalisation
NON-GOVERNMENT BONDS		
Corporate	<ul style="list-style-type: none"> Main market – new listing Main market – secondary offering 	<ul style="list-style-type: none"> Market capitalisation
Municipal or quasi government	<ul style="list-style-type: none"> Main market – new listing Main market – secondary offering 	
Government bonds	<ul style="list-style-type: none"> Existing bonds in issue at year end New issues at different maturities 	<ul style="list-style-type: none"> Yield curve
Ownership of government bonds %	<ul style="list-style-type: none"> Domestic institutions, Pension funds, NSSF, Insurance, Unit trusts, Individuals, Foreign investors, Region Other 	
INVESTMENT VEHICLES		
Fund management companies	<ul style="list-style-type: none"> Number 	
Unit trusts	<ul style="list-style-type: none"> Number of funds Number of investors 	<ul style="list-style-type: none"> Funds under management
Pension funds		<ul style="list-style-type: none"> Total funds under management
NSSF		<ul style="list-style-type: none"> Funds under management
Others	<ul style="list-style-type: none"> Number of funds 	<ul style="list-style-type: none"> Funds under management
Retail savings	<ul style="list-style-type: none"> Number of savers in formal sector (non-traditional land etc.) 	<ul style="list-style-type: none"> Total of domestic retail savings As % of GDP
Bank savings deposits Pension Unit trust Insurance Government bond Other special savings products	<ul style="list-style-type: none"> Percentage of savings in each 	<ul style="list-style-type: none"> Total value of each

The Morgan Stanley Composite Index 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	
Market entry:	
• Investor registration and account set up	Complexity of registration requirements
Market Organization:	
• 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
Market Infrastructure:	
• 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
• Trading	Level of competition among brokers ensuring high quality services
• Transferability	Possibility of off-exchange transactions in kind mechanisms
• Stock lending	Existence of a regulatory framework for stock lending
• Short selling	Existence of a regulatory framework for short selling
C4 Stability of the institutional framework	
Stability	Basic institutional principles such as rule of law and its enforcement as well as stability of free market economic system.

Milestones - indicators of progress

Milestones	Phase
IMPROVING ISSUANCE TO RAISE LONG TERM FINANCE – RECOMMENDATIONS 2 TO 8	
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
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
Capital Markets Authority Act amended to permit exchange regulated markets	1
Regulation and rules enabling listing by introduction in place	1
Full implementation of financial reporting by public and private sector and compliance with disclosure requirements	3
IMPROVING AVAILABILITY OF LONG TERM FINANCE – RECOMMENDATIONS 9 – 15	
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
Amend licensing regime to recognize Investment Houses	3

Capital Markets Authority

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