

**AN ASSESSMENT OF THE SHORTCOMINGS OF THE GROWTH OF THE  
CAPITAL MARKETS IN UGANDA**

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**UGANDA CHRISTIAN  
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**DECLARATION**

I, **TWESIGYE BERTHA**, declare that this dissertation is my original work and that where other works have been quoted, it is indicated. This work has never been submitted to any university for the award of a Bachelor's Degree in Law.

Sign..........

Date...4/06/2025.....

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**APPROVAL**

This is to certify that this research paper titled “An Assessment of the Shortcomings of the Growth of the Capital Markets in Uganda” has been written under my supervision on behalf of the School of Law of Uganda Christian University.

Research Supervisor..... *Kashaija Emmanuel*

Signature..... *[Handwritten Signature]*

Date..... *4/06/2025*

## DEDICATION

I dedicate this work to all my loved ones, especially my lovely parents, **Mr. Hannington Willy Turyaheebwa and Mrs. Jenninah Mumusiime Turyaheebwa, for always believing in me and, most importantly, for loving me** and supporting me since day one. Additionally, the entire “TEAM MATERIAL” and “THE BENCH” have been the best discussion groups, offering tireless effort, support, and encouragement that have been there for me throughout law school.

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## **LISTS OF ACRONYMS**

BOU.....	Bank of Uganda
CMA.....	Capital Markets Authority
IPO.....	Initial Public Offering
UIA.....	Uganda Investment Authority
USE.....	Uganda Securities Exchange
EASRA.....	East African Securities Regulatory Authority

## **ABSTRACT**

This study examines the shortcomings of capital market growth in Uganda. The specific objectives were to identify the types of capital markets, assess the shortcomings of their growth, evaluate and critique the role of capital markets, and recommend steps and solutions to mitigate the challenges affecting capital markets. The study employs a desk review method, primarily focusing on secondary data collected, to analyze the legal, institutional, and socio-economic dimensions of the capital markets' as regulated by the Capital Markets Authority. Additionally, the study examines the socioeconomic, cultural, and institutional factors that influence the implementation and outcomes of the Capital Markets Authority Act and provides recommendations for reform. The findings of this research are expected to provide valuable insights for policymakers, practitioners, and stakeholders, informing evidence-based policy formulation that aims to strengthen Uganda's capital markets.

# CHAPTER ONE: INTRODUCTION

## 1.1 INTRODUCTION

The researcher chose this topic because of the unique role played by the Capital Markets and the seemingly low levels of awareness of the securities market among Ugandans as to what the capital markets are, what they do and also how they could have contributed to Uganda's economy not leaving out the challenges that the Capital Markets Authority faces while exercising its mandate.

Therefore, the researcher focused on the Capital Markets Authority Act, among other legislations passed in relation to the topic, and how they have contributed to the growth of the economy and market transparency. Market securities also play a crucial role in boosting the financial sector. As capital is a major constraint in most developing countries, it's imperative to examine Uganda's performance in the Africa Capital Markets Index, as businesses need to attract funding from investors to supplement internally generated resources and expand and grow. Capital markets are important to examine because they facilitate access to long-term patient capital that may not be available from traditional sources, such as commercial banks. This study, therefore, provides an overview of the regulatory framework of capital markets in Uganda, with the objective of assessing its shortcomings in promoting growth and development in Uganda.

## 1.2 BACKGROUND

The Capital Market is a place where funds are raised by issuing securities to the public, which is also referred to as the primary market.<sup>1</sup> It is a platform where investors trade in long-term financial products known as securities. These securities include debentures, shares, bonds, equity, debt, and units in collective investment schemes, among others.<sup>2</sup>

Uganda's capital market industry is relatively new and small compared to other developing countries, such as South Africa and India.

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<sup>1</sup> 'Capital Market Authority\_ What Is Capital Market\_' CMA Rwanda.

<sup>2</sup> 'Capital Market Authority\_ What Is Capital Market\_' CMA Rwanda.

The development of capital markets in Uganda began with the passage of the Capital Market Authority Act 42 and the establishment of the Capital Markets Authority in 1996, as a body responsible for promoting, developing and regulating capital markets in Uganda with the objective of investor protection and market efficiency.<sup>3</sup> It has since been amended twice, in 2011 and 2016. The establishment of the stock exchange, the Uganda Securities Exchange (USE), was authorized by the CMA to operate in June 1997 and to operate a securities central depository in 2009. The Uganda Securities Exchange is a company limited by guarantee and owned by its members. After USE was established, a comprehensive framework was established to ensure conformity to the rules and regulations set forth by the Authority. USE was also to have direct oversight over the listed entities and member firms. The regulation aimed primarily at protecting investors, promoting efficient capital markets, and maintaining an orderly transaction market, among other objectives.<sup>4</sup> A company intending to apply for a listing on the Uganda Securities Exchange must conform to the Listing Rules and Regulations 2021 as stipulated in the continuing Listing Obligations. The regulations examined in this research were not limited to the Capital Markets Authority Act, Cap 64; the Capital Markets Corporate Bond Guidelines, 2003; the Uganda Securities Exchange Listing Rules, 2021; the Companies Act, Cap 106; and Case Law, among others. For instance, the first bank to be listed on the Uganda Securities Exchange was Bank of Baroda, which was listed in September 2022, with ownership of an 80% stake in the Ugandan branch and the remaining 20% floated on the USE and a total of 2.5 billion shares with a par value of UGX 10 per share. So many companies are now listed, including Uganda Clays Limited, British American Tobacco, New Vision Group, UMEME, MTN Uganda, and Airtel Uganda, among others.<sup>5</sup>

### 1.3 STATEMENT OF THE PROBLEM

Despite the enactment of the Capital Markets Authority Act in Uganda, which aimed at providing for the Capital Markets Authority to promote and facilitate the development of an orderly, fair and efficient capital markets industry, provide for stock exchanges, stockbrokers and other persons dealing in securities, and also provide for offences relating to trading in

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<sup>3</sup> Kampala International University Law Journal (2023) Vol.5 on [www.kiulj.kiu.ac.ug](http://www.kiulj.kiu.ac.ug) accessed on 26 January 2025

<sup>4</sup> Kampala International University Law Journal (2023) Vol.5 on [www.kiulj.kiu.ac.ug](http://www.kiulj.kiu.ac.ug) accessed on 26 January 2025

<sup>5</sup> Uganda Securities Exchange- <https://www.african-markets.com> > accessed on 13 March 2025

securities, the capital market still faces challenges, such as<sup>6</sup> staff not taking up online training opportunities, limited synergy between the work of departments, and unsatisfactory remuneration system, not only affect the capital markets' performance but also undermine the fundamental objectives of the Act and pose significant barriers to the attraction and sustainability of finance for companies through the capital markets they underperform because of the challenges faced. This study, therefore, aims to conduct a comprehensive evaluation of the Act's performance, analyze the challenges faced by the capital markets, and provide recommendations to address these challenges, thereby fostering economic growth, development, and market transparency in Uganda.

#### 1.4 GENERAL OBJECTIVES

The study's primary objective was to identify the shortcomings of capital market growth in Uganda.

#### 1.5 SPECIFIC OBJECTIVES

- 1) To establish the law regulating the capital markets in Uganda.
- 2) To establish the types of capital markets in Uganda.
- 3) To identify the shortcomings of the growth of the capital markets in Uganda.
- 4) To ascertain and critique the role of the Capital Markets Authority and how it facilitates the growth of the economy and market transparency.
- 5) To recommend steps and solutions that could be taken to mitigate the challenges that affect capital markets.

#### 1.6 RESEARCH QUESTIONS

- 1) What is the law regulating the capital markets in Uganda?
- 2) What are the different types of capital markets in Uganda?
- 3) What are the shortcomings of the growth of the capital markets in Uganda?
- 4) What role does the Capital Markets Authority play in the growth of the economy and market transparency?

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<sup>6</sup> Jacqueline Kobusingye Opondo, 'CMA Strategic Development Plan 2021/22-2024/2025' <https://cmauganda.co.ug> > accessed on 13 March 2025

5) What can be done to mitigate the challenges that affect the capital markets in Uganda?

### 1.7 SIGNIFICANCE OF THE STUDY

- The study helps in getting a deeper understanding of the role of the Capital Markets Authority and the challenges faced in exercising its mandate.
- The study is vital in understanding how the financial crises have been mitigated in the capital markets industry in Uganda.
- The research identifies the challenges that Capital Market's Authority has faced in exercising its role and also makes appropriate recommendations.

### 1.8 JUSTIFICATION OF THE STUDY

- The study offers information to Government, Corporate Entities, Scholars and Individuals who desire to invest in capital markets.
- The study is intended to create awareness of the role of the Capital Markets Authority and the regulation of the capital markets and other legislation in trying to mitigate financial crises.
- The study needed to be carried out to obtain information that may be used by policymakers and regulatory bodies like the Capital Markets Authority and Uganda Securities Exchange, among others, in an attempt to promote the growth of capital markets in Uganda.

### 1.9 SCOPE OF THE STUDY

#### 1.9.1 THEMATIC SCOPE

The study was conducted in Kampala, Uganda.

#### 1.9.2 GEOGRAPHICAL SCOPE

The researcher targeted companies listed on the Uganda Securities Exchange and persons licensed by the CMA to offer related services on Capital Markets in Kampala, Uganda.

#### 1.9.3 TIME SCOPE

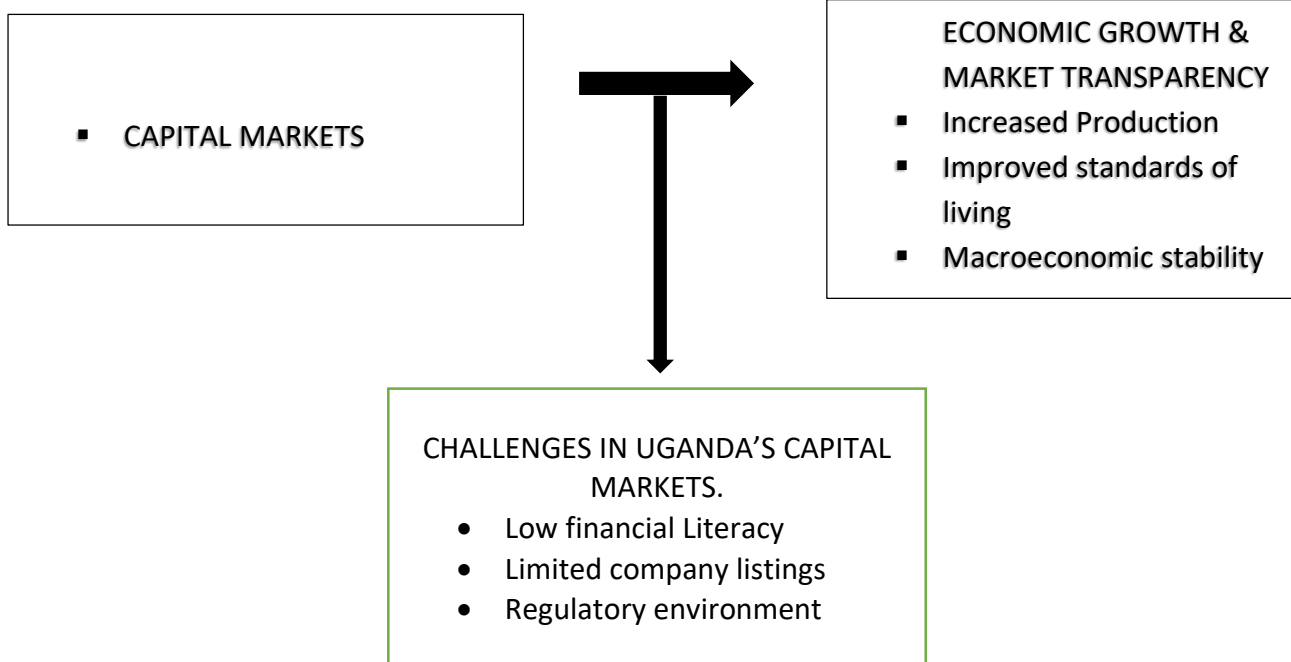
The study was conducted over a four-month period, focusing on the years 2021-2025.

## 1.10 CONCEPTUAL FRAMEWORK

The conceptual framework below presents the independent and dependent variable of the study.

### INDEPENDENT VARIABLES.

### DEPENDANT VARIABLES



SOURCE: Researchers Conceptualization 2025

## 2.0 Theoretical Framework

The economic theory and empirical research have emphasized three sets of factors as economy-wide determinants of capital markets development: the macroeconomic environment, the state of development of the financial sector and the strength of basic institutions. While the theoretical background dates back to the 1980s and 1990s, the empirical evidence has been regularly produced from the 1990s to the present, revealing a sharp interest on the part of the policy and academic research community in examining both advanced and developing and emerging economies.<sup>7</sup>

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<sup>7</sup> Ana Fiorella Carvajal & Ricardo Bebezuk, 'Capital Markets Development- Causes, Effects and Sequencing <https://www.worldbank.org> accessed on 29<sup>th</sup> March, 2025

## 2.1 Macroeconomic preconditions

The macroeconomic context exerts a strong influence on capital market size and structure through three channels: gross domestic product (GDP), growth and level, stability, and fiscal policies.<sup>8</sup>

### 2.1.1 Gross domestic product

The level and change of GDP matter because they are a key driving force behind the supply of funds (private savings) and the demand for funds (private investment) flowing into both primary and secondary markets. Not all private savings and investments are directed toward capital markets, but, all other things equal, the higher they are, the more dynamic the capital markets will be. In relation to savings, well-accepted consumption theories indicate that by widening the gap between disposable income and subsistence consumption, higher GDP per capita entails a higher capacity to save. The impact of the GDP growth depends on whether people perceive that income as permanent, where the additional income would be entirely consumed, or temporary, in which case, savings would take place.<sup>9</sup>

Grigoli, Herman and Schmidt Hebbel uncover strong supporting evidence in their comprehensive empirical study of 165 countries over the period 1981-2012. The GDP level may also lead to deeper capital markets via other channels. Here, it may be relevant to distinguish the effects of GDP per capita from those of total GDP. On theoretical grounds, the GDP per capita may be important because richer economies tend to comprise better institutions and be more stable, more complex, innovative, and high-risk activities expand *pari passu* with GDP per capita, requiring long-term and risk-sharing financing arrangements, which in turn boost the demand for market-based solutions through banking finance.<sup>10</sup>

### 2.1.2 Stability

Macroeconomic stability provides the foundations for investors to invest long term. The negative impact of macroeconomic instability is self-evident through undermining the ability to assess the creditworthiness of most prospective issuers, volatility exacerbates the degree of informational frictions, the prime deterrent to investor participation. In other words, risky

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<sup>8</sup> Ana Fiorella Carvajal & Ricardo Bebezuk, 'Capital Markets Development- Causes, Effects and Sequencing <https://www.worldbank.org> accessed on 29<sup>th</sup> March, 2025

<sup>9</sup> Ana Fiorella Carvajal & Ricardo Bebezuk, 'Capital Markets Development- Causes, Effects and Sequencing <https://www.worldbank.org> accessed on 29<sup>th</sup> March, 2025

<sup>10</sup> Ana Fiorella Carvajal & Ricardo Bebezuk, 'Capital Markets Development- Causes, Effects and Sequencing <https://www.worldbank.org> accessed on 29<sup>th</sup> March, 2025

projects become riskier in the eyes of the prospective financiers, inhibiting the supply of funds into capital markets. The inability to forecast cash flows and interest rates may also reduce the corporate demand for funds, except in the case of opportunistic issuers. When transactions take place, instability might bias the set of instruments toward bonds; short maturities, secured, low-risk and local currency-denominated securities, and local markets and hence away from equity and long-term, high-risk securities as well as foreign currencies and markets. This preference will lessen the welfare effects normally associated with capital markets development. A sound macroeconomic framework is essential for attracting foreign capital and ensuring monetary policy effectiveness. Since uncertainty is not a directly observable variable, empirical proxies are used to capture its effect, with the inflation rate being the most popular, and to a lesser extent, the inflation and the exchange rate volatilities. The negative impact consistently appears in studies related to both the equity and the bond markets in emerging and advanced countries.<sup>11</sup>

### 2.1.3 Fiscal policies

The third and last macroeconomic channel runs through fiscal policies primarily budget imbalances which may act by creating a sovereign debt market at different maturities thus providing by way of a yield curve, benchmarks against which to value corporate bonds in particular an active market for long-term government bonds is required for the establishment of a yield curve. The monetary policy, which alters the interest rate and the yield curve, and the exchange rate policy, which changes the incentives to issue in different currencies and countries, may impact capital market outcomes. The government debt market will also play a catalytic role in giving rise to a minimum threshold of trading volume and liquidity to jump-start the private market. The flip side is twofold: for one, government bond issuance may crowd out private sector issuance, and second, unmanageable fiscal borrowing, as well as external deficits, may end up in more macroeconomic instability and even crises, thus jeopardising market development. Based on the studies reviewed, the fiscal deficit to GDP, by fostering the government bond market, exerts a positive effect on the private sector bond market in both advanced and emerging countries.<sup>12</sup>

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<sup>11</sup> Ana Fiorella Carvajal & Ricardo Bebezuk, 'Capital Markets Development- Causes, Effects and Sequencing <https://www.worldbank.org> accessed on 29<sup>th</sup> March, 2025

<sup>12</sup> Ana Fiorella Carvajal & Ricardo Bebezuk, 'Capital Markets Development- Causes, Effects and Sequencing <https://www.worldbank.org> accessed on 29<sup>th</sup> March, 2025

## 2.2 Financial markets preconditions

A common thread across the theoretical literature is that capital market development is likely to coincide with deeper financial markets as a whole. This can be distinguished in three different ways: the preexistence of a well-developed banking system, the emergence of institutional investors, and the degree of international financial openness.

### 2.2.1 Institutional investors

The institutional investors industry may become instrumental in igniting, on behalf of its clients, the appetite for a broad set of assets that are issued and traded in capital markets. Armed with sizable resources, institutional investors create the necessary demand for the securities issued by both the private and the public sector. This demand should be able to gradually create its own supply, even if the assets in demand are not available in the first place. Institutional investors may strengthen financial innovation, transparency, information disclosure and corporate governance, as well as reinforce economies of scale, all of which are likely to feed back into more capital markets development. Whether institutional investors or securities markets come first remains an open issue and is highly dependent on the particular context of the country under analysis. The existence of this industry is naturally not a sufficient condition for a thriving market. In particular, when funds are overwhelmingly allocated to sovereign bonds or to blue chips trading in the secondary market, little impact should be expected on the issuance of new corporate securities by new or seasoned companies. Other factors could play a role, such as the structure of the corporate sector, and likewise, when institutional investors follow buy-and-hold strategies, they will be of little help in invigorating market liquidity. Economies with investor-friendly laws tend to have deeper capital markets and higher stock market valuations.<sup>13</sup>

### 2.2.2 Financial openness

External policies in the form of financial openness and securities market liberalization, in particular, may enter the scene by either leveraging or hindering the expansion of local markets. A positive outcome will materialize if foreign capital is pulled into domestic markets, a process that might also bring with it a lower cost of capital and lower transaction costs. The reform may become self-defeating, though, if it paves the way for cross-listing and migration of local

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<sup>13</sup> Ana Fiorella Carvajal & Ricardo Bebezuk, 'Capital Markets Development- Causes, Effects and Sequencing <https://www.worldbank.org> accessed on 29<sup>th</sup> March, 2025

issuers, especially the larger and more liquid ones, to international markets, causing a loss of liquidity and diseconomies of scale.<sup>14</sup>

### 2.3 Preconditions related to the legal and institutional environment

The legal and institutional environment may boost capital markets development in two main ways: via the existence of robust legal investor protection and at a more general level, and also via the protection of the rule of law and political stability.

#### 2.3.1 Legal protection of investors

In order to provide investors with the confidence to put their money into firms they do not know and to assure them that their contractual rights will be enforced if needed, legal protection against fraudulent borrowers is a precondition for investor participation in financial markets that countries associated with the English legal family are more investor friendly than others. The nature of this protection differs according to the type of contract. For instance, in debt contracts, creditors recover as much money as quickly as possible in the event of default. In contrast, in equity contracts, the legal protection should strive to safeguard minority shareholders from expropriation at the hands of the controlling shareholders by ensuring effective voting participation, proper standards of corporate governance and access to timely and transparent information on business affairs. For this institutional channel's test, researchers use indexes of the legal protection of creditors and equity holders, such as those devised initially by La Porta and others in 1997 or those currently available for a large set of countries from the World Bank conducting business studies.<sup>15</sup>

#### 2.3.2 Rule of law and political risk

The country's overall institutional foundations, as measured by indicators of the rule of law, control of corruption, and political risk, are also relevant. Confidence in and the enforcement of property rights, as well as the absence of crime and violence, politically motivated or otherwise, are prerequisites for sustained capital markets development and economic development.

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<sup>14</sup> Ana Fiorella Carvajal & Ricardo Bebezuk, 'Capital Markets Development- Causes, Effects and Sequencing <https://www.worldbank.org> accessed on 29<sup>th</sup> March, 2025

<sup>15</sup> Ana Fiorella Carvajal & Ricardo Bebezuk, 'Capital Markets Development- Causes, Effects and Sequencing <https://www.worldbank.org> accessed on 29<sup>th</sup> March, 2025

In conclusion, this study is more aligned with preconditions related to the legal and institutional environment in particular to provide investors with the confidence to put their money into firms they do not know and to give them assurance that their contractual rights will be enforced if needed, legal protection against fraudulent borrowers is a precondition for investor participation in financial markets. This confidence will also be created through creating awareness among different people who do not have knowledge about capital markets, so that they can also become future investors.

## 3.1 LITERATURE REVIEW

### 3.1.1 INTRODUCTION

The literature review serves as a critical component of this research, providing a comprehensive discussion of the objectives to be achieved. Most previous research indicates that the development of a viable capital market depends on private sector firms willing to participate in the stock exchange by listing, thereby raising patient capital. A developed capital market relies on individuals, institutions and corporate demand for securities issued by the capital markets.<sup>16</sup> A collection of papers presented at a symposium on Global Capital Markets, titled “Changing Capital Markets: Implications for Monetary Policy,” has been useful for insight into the concerns of capital market development.<sup>17</sup> This article highlights considerations that policymakers must make, especially in developing markets.

In an interview with the Executive Director of Investment Advisor Renaissance Capital Ltd<sup>18</sup> where he highlights that ignorance is one of the challenges of capital markets in Uganda. The director insists that it is just because the whole issue of capital markets is fairly new, and what needs to be done is for more players to join the market. The director also talks about marketing the capital markets and how the harsh economy hurts the capital markets.<sup>19</sup>

Dr Michael Atingi said in his interview that Uganda must graduate to the level where it can borrow funds from international Capital Markets to finance investments in the country.<sup>20</sup> He

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<sup>16</sup> ‘Impact of Long Run Investment of Stock in Developed & Developing Economies’. Accessed 12

<sup>17</sup> Ibid

<sup>18</sup> ‘Harsh Economy Hurts Capital Markets \_ Monitor’. >Accessed 12 March 2025

<sup>19</sup> Ibid.

<sup>20</sup> ‘Fear of Default Forces Banks to Cut Back on Lending - BoU \_ Monitor’.> Accessed 11 March 2025

said that for Uganda to reach that level of borrowing from international capital markets, it must have a strong domestic capital market, meaning that Uganda's stock market should have several companies listed, which trade regularly through a more computerized system. The interview shows us how Uganda should concentrate on its Capital Market by borrowing knowledge outside and developing its own. The existence of moral hazards, adverse selection effects, and asymmetric information affects the behavior of financial markets in developing countries. The challenges to the development of trade and investment, among others, include access to finance, a competitive incentives regime, bureaucracy, a lack of skills, and some major obstacles that prevent potential investors from achieving their development plans. Existing financial institutions, which are largely foreign-owned, primarily focus on short-term lending at extremely high interest rates. This situation has long remained unchanged.

Capital markets may spur economic growth by fostering the volume or the productivity of investment or both. For the quantity of private investment to increase, larger flows of savings should find their way into productive projects via the primary market. This effect will materialize only as long as this issuance is not offset by less bank credit or other forms of financing. Therefore, capital markets contribute to growth only if they provide resources to undertake the investment projects that are the pillars of economic activity.<sup>21</sup>

The predictability of stock returns from dividend yields is not in itself evidence for or against market efficiency. In an efficient market, the forecast power says that prices are high relative to dividends when discount rates and expected returns are low and vice versa. Fama and French show that low dividend yields imply low expected returns and suggest a different way to judge the implications of return predictability for market efficiency. They argue that if variation in expected returns is common to different securities, then it is probably a rational result of variation in tastes for current versus future consumption or in the investment opportunities of firms.<sup>22</sup>

Individual investors may use the money markets to invest their savings in a safe and accessible place. Many choices are available, including mutual funds that focus on state money market

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<sup>21</sup> Ana Fiorella Carvajal & Ricardo Bebezuk, 'Capital Markets Development- Causes, Effects and Sequencing <https://www.worldbank.org> accessed on 29<sup>th</sup> March, 2025

<sup>22</sup> Eugene F. Fama, 'Efficient Capital Markets II, the Journal of Finance, Dec, 1991, Vol. 46, No.5, pp 1575-1617 accessed on 29<sup>th</sup> March, 2025.

funds, municipal funds, and government treasuries. Many of the government funds are tax-free. Companies and governments can raise long-term funds for more than a year through this market, and then the capital market channelizes the funds from those who have excess capital to those who need it.<sup>23</sup>

Establishing a yield curve requires a critical number of competitive investors in the market for long-term securities to develop a functioning market, which Uganda still lacks. The government of Uganda does not have a domestic borrowing requirement and specifically plans its budget to avoid domestic borrowing so as to create more room for private sector borrowing from the financial system. Uganda's high fiscal deficit is financed by donor aid, not domestic borrowing. Therefore, the rapid expansion in the issuance of treasury bills has been for purposes of liquidity management, not to finance the deficit. The IMF recommended that the government of Uganda should not issue long-term bonds unless they are needed to finance the fiscal deficit.<sup>24</sup>

In Uganda, little attention is given to the role played by capital markets and their effect on economic growth. Dominant capital markets enable nations from across the world to grow economically by assisting them in generating the financial resources and skills needed to achieve their economic goals. Initiatives that encourage growth and investments must be promoted in a country.<sup>25</sup>

The low volume of venture capital and private equity has largely been attributed to the investment readiness of prospective investee companies. While various programs run by the government, private players and development organizations are aimed at improving this, the number of successful deals hasn't significantly increased. Investors often rely on generalized knowledge and regional trends comparing Uganda to other countries in the region, yet Uganda has unique characteristics that set it apart, including differences in economic development, technological advancement, culture, policy frameworks and regulatory environments.<sup>26</sup>

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<sup>23</sup> Uganda Securities Exchange Monthly Bulletin 2022 > <https://www.use.or.ug> accessed on 29<sup>th</sup> March 2025

<sup>24</sup> Damoni Kitabire, 'Capital Market Development in Uganda > <https://www.fondad.org> accessed on 29<sup>th</sup> March 2025.

<sup>25</sup> Hassan Kitenda, 'Capital Markets, An Engine for Economic Growth', > <https://allafrica.com> accessed on 29<sup>th</sup> March 2025

<sup>26</sup> Brenda Amony Yiiki, 'Unlocking private capital in Uganda through investor education' > <https://fsduganda.or.ug> accessed on 29<sup>th</sup> March 2025.

Uganda's capital markets have tremendously improved, scoring highly in areas such as trade and settlements automation, according to the report compiled by Absa. Uganda has only 17 firms listed on the stock exchange with a total market capitalization of shs. 22 trillion as of 2021. This, according to the report, has been a challenge to the growth curve of capital markets in Uganda, with participation largely limited to elites and large corporations. Uganda must engage in innovation to increase its product portfolio in a bid to create diversity.<sup>27</sup>

However, this research is more aligned to examining the short comings that affect the growth of capital markets and more so in regards to lack of awareness where many people in Uganda lack knowledge on capital markets and how they do operate and no measures have been taken to educate Ugandans to acquaint them with knowledge on the same. This research examines the different challenges faced by capital markets and also gives recommendations on how they could be mitigated, which the different scholars above do not examine.

## 4.0 Methodology

### 4.1 Introduction

This part of the study presents the research methodology. It includes the research design, model specifications, data sources, data analysis, ethical considerations, and anticipated challenges.

### 4.2 Research Design

This study employed a qualitative research design to analyze the data using different methods. The study primarily relied on secondary sources of data to answer the research questions and test the hypothesis. It attempted to highlight the challenges of capital markets in promoting economic growth and development.

The hypothesis of the research is:

- a) The Capital Markets Authority Act has attempted to promote economic growth and development by addressing issues of low financial literacy, market transparency, and a regulatory environment.

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<sup>27</sup> David Arthur Wandera, 'Uganda's capital markets ranked among Africa's best' (Uganda, 2<sup>nd</sup> January 2021) <https://www.monitor.co.ug> accessed on 29<sup>th</sup> March 2025.

- b) However much the CMA has tried to promote economic growth, there are still gaps, such as the lack of licensing regulations for all categories, including underwriters and credit rating agencies, as well as market constraints, governmental issues, and ad-hoc stakeholder engagement, among others, that have not been properly addressed by the Act.<sup>28</sup>

#### 4.4 Variables and indicators

The study identifies several key variables for assessing capital markets in relation to the role and challenges the CMA has faced. The variables associated with the role include macroeconomic stability, improved standards of living, and increased production. The indicators include low financial literacy, limited company listings and a regulatory environment.

#### 4.5 Data Sources

##### 4.5.1 Data Sources per Variable

The research was conducted by collecting data from different sources. These included articles, journals, statutes, textbooks, and statistics pertaining to listed companies, among other things, to establish the performance of different companies on the USE.

##### 4.5.2 Data Processing and Analysis

The researcher analyzed data using statistics from various articles and online documents, employing descriptive statistics such as charts and tables. The study also used document reviews and focus group discussions.

##### 4.5.3 Liability and Validation

The data underwent various checks and was supported by online forms created through reputable websites, which ran tests on the collected data to verify its contents.

#### 4.6 Ethical Considerations

The researcher found that textbooks, journals, articles, and various legislation were valuable methods for researching the topic. Since some people may fail or refuse to fill out the questionnaires, different write-ups are easier and more trustworthy for collecting information.

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<sup>28</sup> Report of the Auditor General on the financial statements of the CMA for the financial year ended 30<sup>th</sup> June 2022, Office of the Auditor General, <https://www.oag.go.ug> >accessed on 13 March 2025

They also make it easy to provide one with whatever understanding or knowledge they may hold on the research topic, and this can be easily analyzed by the researcher.

#### 4.7 Anticipated Limitations

##### **Lack of data**

Data on people who researched the topic was scarce, and hence, it was difficult to make arguments based on different authors, writers and even decided cases.

##### **Time Factor**

The researcher anticipated that time would be an issue and was not properly managed because there was a lot to research and the time was limited, which would not have made the study fruitful.

##### **Funding Factor**

The study involved extensive research, which was expensive due to the costs associated with conducting a detailed study, such as the need to purchase documents to access them.

##### **Information gap**

The researcher anticipated a significant information gap, as few people had written about capital markets, and many were unfamiliar with their functions.

#### 4.8 CHAPTER SYNOPSIS

This paper is divided into four chapters.

Chapter one entails a comprehensive introduction to the research, incorporating both the literature review and methodology sections. This chapter begins with an overview of the importance of capital markets and the challenges they face in exercising their mandate. It also discusses the history of capital markets, the establishment of the USE, and some of the listed companies in Uganda. The literature review examines various discussions on capital markets presented by other authors. The methodology then examines the research design, data collection methods, sampling, ethical considerations, and anticipated limitations. Through this

paper, readers gain a comprehensive understanding of the research context and the flow of the research, laying down the groundwork for the subsequent findings.

Chapter Two focuses on the non-legal aspects of capital market growth shortcomings. It provides an introduction, briefly discusses the historical context of capital markets, and discusses different political, social, and economic factors that affect capital markets in Uganda.

Chapter three focuses on analyzing the questions of what law regulates capital markets in Uganda, the different types of capital markets, shortcomings that affect the growth of capital markets, the role Capital Markets Authority plays in the growth of the economy and market transparency and what can be done to mitigate the challenges that affect the capital markets in Uganda.

Chapter Four of the study focuses on the research findings and the general recommendations that must be considered to mitigate the different challenges capital markets face in promoting growth and market transparency.

## CHAPTER TWO:

### NON-LEGAL ASPECTS OF THE SHORTCOMINGS TO THE GROWTH OF CAPITAL MARKETS IN UGANDA.

#### 5.0 INTRODUCTION

This chapter embarks beyond the confines of legal frameworks, delving into the historical context, socio-economic, cultural, institutional and demographic factors that affect the growth of capital markets in Uganda. While legal aspects provide the foundational backbone, this chapter recognizes the need to explore the other various dimensions that affect the growth of capital markets and also serves as a vital platform for fostering a deeper understanding of capital markets in terms of political, economic, social, technological and environmental factors among others.

#### 5.1 Historical context

Uganda's capital markets industry is relatively new and small compared to other emerging markets such as South Africa, India, etc. The capital market in Uganda is centred around the USE, which opened in 1988. The CMA of Uganda supervises the sector. The three regulatory authorities of Kenya, Uganda and Tanzania signed a Memorandum of Understanding in 1997 and created a body known as the EASRA<sup>29</sup>. The EASRA seeks to introduce cross-border listings of securities, harmonize the legal and regulatory framework and develop capital markets in the region<sup>30</sup>. The regulatory framework for capital markets came into existence following the enactment of the Capital Markets Authority Act Cap 84 in 1996 and the establishment of the stock exchange, the USE. The USE was authorized by the CMA to operate a stock exchange in June 1997 and to operate a securities central depository in 2009.<sup>31</sup> In Uganda, there is a general lack of competition in financial markets, deriving from the fact that the government has a monopoly in the finance sector. The government's monopoly institutions stifle savings and provide returns below market rates. Investors will be unwilling to risk investments in a stock market that is poorly regulated without adequate information disclosure

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<sup>29</sup> Uganda at a glance- An overview of the financial system <https://www.afdb.org> accessed on 28<sup>th</sup> March 2025

<sup>30</sup> Ibid

<sup>31</sup> <http://www.use.org.ug/> accessed on 25<sup>th</sup> March, 2025

and investor protection.<sup>32</sup> For instance, the National Social Security Fund has around US\$500 million and earns barely a 7% return on its investments. In contrast, the Bank of Uganda offers a prime rate of 11%. This study is therefore to unravel the inherent constraints in the system to its growth. Regulators are to balance investor protection needs that may lead to more stringent regulation with the need to promote market efficiency that may lead to minimal government interference in markets.<sup>33</sup>

## 5.2 Political Factors

These political factors include the external constraints linked to governmental activities and political conditions, practices or decisions that affect capital markets. For example, unpredictable political environment and delayed enforcement actions, which reduce investor confidence in markets, leading to capital flight, high interest rates on government securities, which may hinder the development of the corporate bond market and also a reduction in liquidity, and a reduction in funding from the government.<sup>34</sup> Others include unfavorable policy decisions or orders that may impede CMA from realizing its mandate, unstable policy enrollments. Government policies and regulations play a crucial role in shaping Uganda's market; however, it can be challenging, for instance, where the World Bank ranked Uganda 127 out of 190 countries in its business report. Changes in leadership can also influence the market since they cause changes in the government's policies and priorities.<sup>35</sup>

## 5.3 Economic Factors

Economic factors include those that affect the overall economy as well as individuals and their businesses. These include low levels of saving rate leading to low long term financing availability, low level of liquidity in both the equity and bond markets, likelihood of budget cuts to Ministries, Department and Agencies foreseeable in light of reduced Government tax revenue, increased government borrowing through government securities at high interest rates impedes the development of capital markets, the global and local effects of COVID-19

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<sup>32</sup> F.B. Friedman & C. Grose, 'Promoting Access to Primary Equity Markets: A legal and Regulatory Approach,' World Bank Policy Research Working Paper 3892 of 2006. > <https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-3892> accessed on 25th March, 2025.

<sup>33</sup> P. Poonam, "The Capital Markets Perspectives on a National Securities Regulator." Supreme Court Law Review (2d) 51 (2001): 603-623 > <https://digitalcommons.osgoode.yorku.ca/cgi/viewcontent.cgi?refer=httpsredir=1&article=3378&context=scholarlyworks>. Accessed on 25<sup>th</sup> March 2025

<sup>34</sup> Jacqueline Kobusingye Opondo, 'CMA Strategic Development Plan 2021/22-2024/2025' <https://cmauganda.co.ug> > accessed on 13 March 2025

<sup>35</sup> [www.trade.gov](http://www.trade.gov) accessed on 25<sup>th</sup> March 2025

pandemic that limited investments across the world.<sup>36</sup> Lack of awareness is a major factor, and hence, public disclosure of relevant information is important for pricing efficiency and market confidence. Macroeconomic factors can also affect, for instance, interest rates, which cause changes in interest rates and can affect the cost of borrowing, influencing investor demand for stocks and bonds. High inflation can also erode the purchasing power of investors, reducing demand for assets.<sup>37</sup>

#### 5.4 Social Factors

Social factors refer to external, societal influences that impact investor behavior and markets dynamics for instance a sudden shift in investor sentiment due to a major political event or economic crisis can cause market volatility, low level awareness of capital markets especially among Government technocrats, policy makers and the wider business community that would utilize such markets for cheap long term capital, Uganda has a predominantly young population under the age of 30 who are not interested in investment, mindset towards savings and investments is still low, mindset of business owners especially family owned businesses towards market-based financing is negative, limited career growth opportunities.

The market size in emerging markets is relatively small compared to developed markets. Market inefficiency in emerging markets means the market is not open to all, hence restrictions on foreign investors. Growing concerns about climate change and sustainability can impact demand for environmentally friendly investments and companies. Education will affect people's decisions in the financial market, and investors who spend more time on education are more likely to participate in the stock market than those who spend less time on it.<sup>38</sup> Financial literacy that investors have also has an effect on the financial market participation since the higher the education people receive the more financial knowledge they will comprehend and that it is directly proportional to whether they can plan ahead or not.<sup>39</sup>

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<sup>36</sup> Jacqueline Kobusingye Opondo, 'CMA Strategic Development Plan 2021/22-2024/2025' <https://cmauganda.co.ug> > accessed on 13 March 2025

<sup>37</sup> <https://www.worldbank.org> accessed n 26<sup>th</sup> March 2025

<sup>38</sup> Zeyi Bai, Yiqi Fan, 'Influence of factors in Social Environment on Stock Market Participation' > <https://www.atlantis-press.com> accessed on 26<sup>th</sup> March 2025

<sup>39</sup> Ibid

## 5.5 Conclusion

In conclusion, this chapter has provided a comprehensive examination of the non-legal aspects on the short comings to the growth of capital markets. These include the introduction of the subtopic, the historical context of capital markets, and the different non-legal factors, not limited to political, social and economic factors, that affect capital markets. The political factors are more of the external constraints linked to governmental activities and political conditions, practices or decisions that affect capital markets like unfair policy decisions, the social factors refer to external, societal influences that impact investor behavior and markets dynamics like lack of awareness on capital markets and the economic factors include those that affect the overall economy as well as individuals and their businesses for instance low levels of saving rates.

## CHAPTER THREE

### LEGAL AND INSTITUTIONAL FRAMEWORK OF THE SHORTCOMINGS TO THE GROWTH OF CAPITAL MARKETS IN UGANDA

#### 6.0 INTRODUCTION

This chapter delves into the legal and institutional framework of capital markets through the Capital Markets Authority Act and other legislation. It provides a comprehensive analysis of the domestic legal frameworks and institutional arrangements that provide for the regulation of capital markets in Uganda. The chapter shall examine the legal mandates, policy objectives and institutional mechanisms that govern capital markets. Through this, the insights can be used to inform policy formulation, legislative reforms and institutional strengthening efforts aimed at advancing capital markets in Uganda.

#### 6.1 Definition of capital markets and what law regulates capital markets

Capital markets are defined as markets where funds are raised from individual and institutional investors by companies and governments through the sale of shares or the issue of debt to fund the activities of the companies or governments.<sup>40</sup>

Capital markets can also be defined as a market for securities, which could be debt or equity, where business enterprises and governments can raise long-term funds. These securities include treasury bonds, municipal bonds, corporate bonds, debentures, shares, or stocks issued by companies.<sup>41</sup> Capital markets are regulated by several legislations, for instance, the Capital Markets Authority Act Cap 64, Capital Markets Corporate Governance Guidelines S.I. 1 of 1996, the Companies Act Cap 106, Capital Markets Authority (Prospectus Requirements) Regulations S.I. 84-2, and the Capital Markets Corporate Bond Guidelines of 2003.

The objectives of the Capital Markets Authority as provided in the long title of the CMA Act are to provide for the establishment of the Capital Markets Authority for the purpose of promoting and facilitating the development of an orderly, fair and efficient capital markets industry in Uganda to provide for stock exchanges, stock brokers and other persons dealing in

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<sup>40</sup> Capital Markets Authority Act, s 1

<sup>41</sup> St. Louis, 'Federal Reserve Bank-Understanding capital markets' <https://www.stlouisfed.org> >accessed on 27<sup>th</sup> April, 2025

securities, to provide for certain offences relating to trading in securities. The Capital Markets Authority is established by the Act with the capacity to sue and be sued, borrow and lend in its own name, enter into contracts among others.<sup>42</sup>

Uganda's Capital markets industry deals in three products in which one can invest that is; shares, collective investment schemes and Government/ corporate bonds.

## 6.2 Types of capital markets

Capital markets are divided into two; primary markets and secondary markets.

### 6.2.1 Primary markets

Primary markets refer to those markets for new issuers or where new capital is raised. They are the markets where securities are sold for the first time, and therefore, the sale proceeds of the securities offered flow directly from the buyers or investors to the issuers of the securities.<sup>43</sup> It is also known as an Initial Public Offering (IPO). To buy shares during the IPO, a share application form is obtained from participating brokers/ dealers and authorized selling agents which is completed by the prospective investor. During an IPO, a prospectus or information memorandum is given.

A prospectus is a legal document that provides general information about the company offering its shares to the public, such as the company's history and operations, products, and services.<sup>44</sup> It can be a notice, a circular, an advertisement, or any other invitation offering the public a chance to purchase shares or securities of a company.<sup>45</sup>

In the case of **Nash v Lynd**<sup>46</sup> It was stated that for a document to amount to a prospectus, it must be delivered and have some publicity to induce subscription. A prospectus must be issued to the public. The prospectus ought to comply with the directions prescribed by the CMA.<sup>47</sup> Proof of an offer of securities to one person selected as a member of the public shall be prima facie evidence of an offer of securities to the public.<sup>48</sup> Offering to the public means offering

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<sup>42</sup>CMA Act, Section 2

<sup>43</sup> 'Capital Market Authority\_ What Is Capital Market\_' CMA Rwanda.

<sup>44</sup> Companies Act, S.1

<sup>45</sup> The Capital Markets Authority Act, S.100

<sup>46</sup> (1929) AC 158

<sup>47</sup> Reg 5 of the Capital Markets Authority (Prospectus requirements) regulations

<sup>48</sup> s.104 (3)

securities to a section of the public however selected whether as clients, employees or a purchaser of goods from the offeror or a promoter of the securities or being the holder of securities previously issued by the issuer or promoter of the securities<sup>49</sup> or offering individual members of the public among others.<sup>50</sup> Those that do not constitute an offer to the public include an offer of securities where the amount subscribed for the securities by each person to whom the securities are offered is not less than five thousand currency points or prescribed amount<sup>51</sup> or an offer of securities which is restricted to persons who are directors or executive officers of the corporation making the offer or are close relatives or business partners or close business associates of such director or executive officer.<sup>52</sup>

An information memorandum is a document containing details about an issuer of debt securities, such as corporate bonds. It is a memorandum required to be furnished by or on behalf of an issuer whose securities are accepted for listing on or are the subject of an introduction to a stock exchange licensed by the Authority.<sup>53</sup>

#### 6.2.2 Secondary markets

Secondary markets are markets for trading securities that have been sold or issued in the primary market and are already in the hands of the public. Once securities have been successfully issued in the primary market, they are subsequently traded in the secondary market. It is a market in which securities (bonds or shares) are traded on the stock exchange. An active secondary market makes it easier for corporate entities and Governments to raise fresh capital through the primary market.<sup>54</sup> Securities can only be bought or sold through a licensed broker or dealer, a firm that buys and sells securities on behalf of investors for a commission or a brokerage fee. Secondary market trading takes place at the Uganda Securities Exchange.

#### 6.3 Equity and debt securities

To note, as a company matures from a start up to a larger company, it will usually require capital to finance the expansion of its operations. It will raise the required capital either through

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<sup>49</sup> s.104 (1)(a)

<sup>50</sup> s.104 (1)(b)

<sup>51</sup> s.104 (2)(a)

<sup>52</sup> s.104 (2)(b)

<sup>53</sup> s.100 CMA

<sup>54</sup> 'Capital Market Authority\_ What Is Capital Market\_' CMA Rwanda.

equity markets or securities on a stock exchange or through debt markets or securities. The transactions are facilitated by investment bankers, lawyers and accountants who ensure that the ownership transfer is legally executed and that enough investors are willing to invest their capital into the company. After the monies have been invested and securities are issued in exchange, investors can decide to sell their securities on the secondary market to other investors.

#### 6.3.1 Equity Securities

Equity securities are traded on the stock market and are essentially ownership shares of a business or venture. When one owns a company's equity securities, they essentially own a portion of that company and are entitled to any future earnings that the company brings in.

Equity securities are defined as shares, including preference shares, convertible equity shares, options, warrants, and similar instruments with the right to subscribe for or purchase equity shares attached.<sup>55</sup>

#### 6.3.2 Debt securities

These are securities traded on the bond market and investor-owned utilities that can take the form of bonds or notes. They represent the borrowing of money that will be paid back at a later date with interest. The borrowers will take the money, use it to finance their operations, and pay back the money in addition to a prescribed rate of interest at a later date. Debt securities are defined as security that involves the right to be paid money owed by any person, whether or not secured by a charge over property. They include debentures, loan stock, bonds, or notes issued by a body corporate or by a government.<sup>56</sup>

#### 6.4 Instruments used in capital markets

One of the ways in which capital is raised in business is through issuing financial instruments in form of securities.<sup>57</sup> Securities are defined to mean instruments which evidence the holder's ownership rights in a firm or acknowledge a debt and include debentures or bonds, shares, investment contracts among others as discussed below;

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<sup>55</sup>CMA Act, s.100

<sup>56</sup> CMA Act, s.100

<sup>57</sup> Capital Markets in Uganda- <https://asbatlibrary.s3.eu-central-1.amazonaws.co> > accessed on 28<sup>th</sup> April, 2025

#### 6.4.1 Bond

A bond is a certificate issued by a company acknowledging that money has been lent to it and will be paid back with interest at a specified period.<sup>58</sup> Corporate bonds are instruments issued to raise funds directly from investors without the intermediation of banks or other financial institutions.<sup>59</sup> Corporate bonds are issued to help the issuer meet its long-term financing requirements. To ensure proper and appropriate information disclosure, the issuance of corporate bonds must be subject to regulatory clearance by the CMA.<sup>60</sup>

#### 6.4.2 Shares

Shares mean the interest of members of a body corporate who are entitled to share in that body corporate's capital or income, including stock.<sup>61</sup> A share also means a share in a company's share capital and includes stock, except where a distinction between stock and shares is expressed or implied.<sup>62</sup> A share can also be defined as a company's ownership unit.

This means that when you buy shares, you become a part-owner or shareholder of the company. An investor buys shares in the company, which automatically entitles him or her to the company's profits.

#### 6.4.3 Debentures

A debenture is a document showing that a company has borrowed a certain amount of money from a person named therein. The company pays a fixed rate of interest on this loan. A debenture is defined to include debenture stock, bonds, and any other securities of a company, whether constituting a charge on the company's assets or not.<sup>63</sup>

#### 6.4.4 Commercial Paper

Commercial Paper is a debt instrument with a maturity of less than one year and is evidence of a loan extended by a creditor to a corporation.<sup>64</sup> Its purpose is primarily to raise working capital.

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<sup>58</sup> Capital Markets in Uganda- <https://asbatlibrary.s3.eu-central-1.amazonaws.co> > accessed on 28<sup>th</sup> April, 2025

<sup>59</sup> Reg 2(a) the Capital Markets Corporate Bond Guidelines

<sup>60</sup> Reg 3(e) Capital Markets Corporate Bond Guidelines

<sup>61</sup>CMA Act, s.1

<sup>62</sup>Companies Act, s.1

<sup>63</sup>Companies Act, s.1

<sup>64</sup> Reg 2(a) Corporate bond guidelines

## 6.5 Role of Capital Markets

They serve various essential functions within the financial ecosystem.<sup>65</sup>

### 6.5.1 Allocation of Capital

One of the primary functions of capital markets is the efficient allocation of capital. Investors channel their savings into productive investments, enabling businesses to finance new projects, research initiatives, and operational expansions.<sup>66</sup> It also helps to attract foreign investors who may wish to invest their money in an organized capital market. This fosters economic development by directing resources toward ventures with the highest potential returns. Increased employment opportunities caused by increased investments also bring about better standards of living.

### 6.5.2 Facilitation of economic growth

Capital markets play an important role in fostering economic growth and innovation by connecting investors with capital-seeking entities. Businesses utilize capital to fund research, develop new technologies, and expand operations, driving productivity gains and job creation.<sup>67</sup> Access to capital enables entrepreneurs to pursue entrepreneurial endeavors, spurring entrepreneurial activity and fostering a dynamic business environment.

### 6.5.3 Risk management

Capital markets offer diverse financial instruments, such as derivatives, that facilitate risk management for investors and businesses. By offering options, futures, and swaps, market participants can hedge against adverse price movements, mitigate volatility, and safeguard investments.<sup>68</sup> This means that capital markets enhance market stability and investor confidence by managing risks effectively.

### 6.5.4 Liquidity provision

Capital markets enhance liquidity by enabling investors to buy and sell securities freely. Liquid markets ensure that investors can exit positions quickly and at fair prices, promoting the market efficiently and reducing transaction costs. The provision of a market where the selling and buying of shares takes place in an organized manner helps raise funds. Liquidity facilitates

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<sup>65</sup> Matia Kasaija, 'Capital Markets Development Plan 2.0 of 2017 <https://cmauganda.co.ug> > accessed on 29<sup>th</sup> April, 2025.

<sup>66</sup> Corporate Finance Institute, <https://corporatefinanceinstitute.com>. > accessed on 30<sup>th</sup> April, 2025

<sup>67</sup> ibid

<sup>68</sup> ibid

capital formation by attracting investors seeking readily tradable assets, increasing market participation and fostering investor confidence.

#### 6.5.5 Price discovery

Capital markets serve as platforms for price discovery, where forces of supply and demand interact to determine asset prices. Through continuous trading and information dissemination, markets reflect investors' collective expectations, assessments of intrinsic value, and macroeconomic factors.<sup>69</sup> Accurate price discovery ensures that assets are fairly valued, fostering efficient resource allocation.

#### 6.6 Functions of CMA

CMA is an autonomous body established by the government. CMA is different from USE in that CMA is a regulatory body that oversees the capital markets industry in Uganda. At the same time, USE is where capital market products are traded. USE is licensed and regulated by the CMA. The functions of CMA include<sup>70</sup>;

- ❖ To regulate and promote the development of capital markets with particular emphasis on the creation of incentives for longer-term investments in productive ventures.
- ❖ To guarantee and approve the stock exchange operations and security depository systems.
- ❖ Approving and giving licenses to brokers or dealers in the stock exchange and investment advisors like USE.
- ❖ Approving all offers of securities to the public.
- ❖ Protection of the interests of investors and approval of collective investment schemes
- ❖ To advise the government on rules and regulations governing the operations of capital markets.
- ❖ To provide protection to investors, both foreign and local, and also create markets in which securities are issued and traded.
- ❖ To provide facilities for raising long-term patient capital.

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<sup>69</sup> Sejjaaka, Challenges to the Growth of Capital Markets in Underdeveloped Economies: The case for Uganda, pg. 10, available at [www.trustafrica.org/icbe](http://www.trustafrica.org/icbe) > accessed on 30<sup>th</sup> April, 2025

<sup>70</sup> CMA Act, s.7 (1)

However, the functions are not only limited to the ones above. There are other functions of the CMA. There are also decided cases on capital markets;

The case of **Kampala City Council Football Club Ltd v CMA**<sup>71</sup> which stated that the CMA is a corporate body whose duty is not to buy shares but to ensure that the offer of shares to the public is made in an orderly, fair, and efficient manner. Only public companies can raise funds from the public through the sale of their shares.

Also, in the case of **Altx East Africa Ltd v CMA**<sup>72</sup> where the applicants sought different orders to issue against the respondent for cancelling their approval to operate as a securities exchange contrary to the provisions of the CMA Act, Cap. 84. It was stated therein that approval is a one-off process; therefore, one cannot withdraw an approval based on grounds that do not constitute lawful approval requirements. This would have the effect of allowing the regulator to amend and adjust the approval requirements as it pleases, which was never the intention of Parliament. It further discussed that for the Authority to issue a notice of cancellation of the approval is in the public interest and not on any other basis as per Section 24. Government agencies are obliged to observe principles of natural justice before making decisions that may affect the livelihood of citizens, like the cancellation of licenses. Hence, the respondent ought to have given the applicant the benefit of the doubt.

## 6.7 Shortcomings of the growth of capital markets

Regulation is a key component of the stock market. The need for regulation reflects the inherent feature of asymmetric information in financial markets and protects investors, promotes efficient capital markets, and enhances confidence. It's against the strengths and weaknesses that the growth of the security market in Uganda can be partly due to stringent regulatory policies. Despite the strides made in the industry, capital market growth is stunted due to certain constraints. They include;

### 6.7.1 Market Constraints

While privatization has occurred as a result of the divestiture of public assets for some of the privatized assets, the level of risks has remained high where one large investor has retained a controlling interest.<sup>73</sup> A case in point, the New Vision Publishing and Printing Company is

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<sup>71</sup> HCT-00-CC-MC-0008-2007

<sup>72</sup> Miscellaneous Cause No. 426 of 2019

<sup>73</sup> Sejjaaka, Challenges to the Growth of Capital Markets in Underdeveloped Economies: The case for Uganda, pg. 10, available at [www.trustafrica.org/icbe](http://www.trustafrica.org/icbe) > accessed on 30<sup>th</sup> April, 2025

80% government-controlled, even as a public company. Market completeness is a constraint to market growth as investors do not have at their disposal a wide range of enabling instruments for investment, which affects the level of activity on the market.<sup>74</sup> The stock market in Uganda is also extremely mediocre in that the exchange is active for two days a week and operates for two hours each day of operation<sup>75</sup>. This means that even if issuers make timely announcements about material changes in their circumstances, there may be a considerable time lag between the announcement and factoring this new information into the current price.

#### 6.7.2 Government Issues

One of the challenges of capital markets in Uganda is the absence of easily accessible and up-to-date factual disclosure to help understand the country's institutional, legal and regulatory frameworks. This conduct is brought about by transparency issues, which create economic rent-seeking opportunities that negate the benefits of proper business conduct, and such an approach to managing public resources restricts opportunities for investment by firms. This is because of the few public offers on the USE<sup>76</sup> because investors who would like to benefit from such economic rent-seeking behavior would not contemplate making an IPO due to the attendant governance issues, the lack of marketability and information, it is likely that potential stock market investors would not be interested in investing in unknown firms on the stock exchange. Interest rate policy is also why resources for IPO issues are scarce, because governments are major borrowers who provide financial institutions with risk-free positions through bond issuance, and potential stock market investors are not interested in investing in unknown firms. In cases of denationalized firms, where all significant performance fundamentals have been properly balanced, the IPOs have been oversubscribed. There is, however, no evidence as yet pointing to successful firms failing to raise capital on the stock exchange. In other countries like Kenya, private firms have listed successfully.<sup>77</sup>

#### 6.7.3 Low capital market financing

Uganda's FDI currently stands at about USD 1.1 billion without correlative activity in the capital market, which means that several investment opportunities are being externally financed. There appears to exist a network of firms lending to related parties, eliminating the need to source capital through stock markets. Thus, several investors do not have the incentive

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<sup>74</sup> Sejjaaka, Challenges to the Growth of Capital Markets in Underdeveloped Economies: The case for Uganda, pg. 10, available at [www.trustafrica.org/icbe](http://www.trustafrica.org/icbe) > accessed on 30<sup>th</sup> April, 2025

<sup>75</sup> Buringuriza, Acting head Uganda Investment Authority at an investment round table in 2018

<sup>76</sup> Uganda-Market Challenges, 2020, International Trade Administration US Department of Commerce Country Report accessed on 30<sup>th</sup> April, 2025

<sup>77</sup> Jacqueline Kobusingye Opondo, 'CMA Strategic Development Plan 2021/22-2024/2025' <https://cmauganda.co.ug> > accessed on 13 March 2025

to raise finance locally, thereby stunting the growth of the market.<sup>78</sup> Capital market financing is critical to economic growth and development, given the exchange rate differentials between world financial markets and the local financial market.

#### 6.7.4 Macro-specific constraints

One of the most widely acknowledged macro constraints to capital market development is insider dealing in public affairs.<sup>79</sup> The conduct of public affairs is characterised by cronyism, which creates economic rent-seeking opportunities that negate the benefits of proper business conduct. Cronyism is reflected in the large potential for direct self-dealing, abuse of privilege to enrich relatives and friends. This approach to managing public resources restricts opportunities for investment by firms that cannot give kickbacks.

##### 6.7.4.1 Resource Scarcity

As a result of resource scarcity, most firms in underdeveloped countries are micro businesses whose purpose is limited to the subsistence of their owners on the fringes of the formal and informal sectors.<sup>80</sup> Such firm morphology creates a wide resource dispersion, which cannot lead to meaningful growth because consolidation is impossible.

#### 6.7.5 Firm-specific constraints

Most businesses operating in underdeveloped economies are family-owned. The owners are reluctant to lose control and abhor being in the public domain.<sup>81</sup> This is complicated by investors' short-term orientation based on the country's historical past. Most investors keep a lot of funds tied up in physical assets rather than direct business ventures because of the potential for instability. Physical assets are more enduring and would not need excessive rehabilitation to put them back into use or to liquidate them.<sup>82</sup>

#### 6.7.6 Market Information and Efficiency

Limited information availability due to poor enforcement of financial reporting standards for companies as prescribed in the Companies Act.<sup>83</sup> With the exceptions of regulated sectors such

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<sup>78</sup>P. Poonam, "The Capital Markets Perspectives on a National Securities Regulator." Supreme Court Law Review (2d) 51 (2001): 603-623 >

<https://digitalcommons.osgoode.yorku.ca/cgi/viewcontent.cgi?refer=httpsredir=1&article=3378&context=scholarlyworks>. Accessed on 25<sup>th</sup> March 2025

<sup>79</sup> Jacqueline Kobusingye Opondo, 'CMA Strategic Development Plan 2021/22-2024/2025' <https://cmauganda.co.ug> > accessed on 13 March 2025

<sup>80</sup> Matia Kasaija, 'Capital Markets Development Plan 2.0 of 2017' <https://cmauganda.co.ug> > accessed on 29<sup>th</sup> April, 2025.

<sup>81</sup> Sejjaaka, Challenges to the Growth of Capital Markets in Underdeveloped Economies: The case for Uganda, pg. 12, available at [www.trustafrica.org/icbe](http://www.trustafrica.org/icbe) > accessed on 30<sup>th</sup> April, 2025

<sup>82</sup> Ibid

<sup>83</sup> Jacqueline Kobusingye Opondo, 'CMA Strategic Development Plan 2021/22-2024/2025' <https://cmauganda.co.ug> > accessed on 13 March 2025

as banking, insurance, pensions and capital markets, most companies are not required to and have no capacity to report in accordance with international financial reporting standards.<sup>84</sup>

Most people in the public are also not aware of what capital markets are and how they operate, yet they could be potential investors; hence, this lack of awareness heavily affects their development. Public disclosure of relevant information about securities is important for both pricing efficiency and market confidence.

#### 6.7.7 Liquidity issues

Most of Uganda's stock exchanges are small, underdeveloped, and illiquid. For instance, they operate in isolation from other markets, have low trading volumes sheltered from competition by national regulations, and face barriers to capital mobility.<sup>85</sup> Low liquidity means that it will be hard to support a local market with its own trading system, market analysis, and brokers because business volumes would be so low.<sup>86</sup> Institutional and infrastructural indicators, such as the existence of a strict market regulator and the governing law and nature of trading systems, have discouraged local entrepreneurs and indigenous enterprises that wish to raise funds from capital markets. These barriers facilitate stock exchanges operating like closed membership organizations.

#### 6.8 Conclusion

In conclusion, this chapter has provided for a comprehensive examination of the legal aspects that provide for the definition of capital markets and what law regulates them for instance the CMA Act that also gives the objectives of the authority and its functions, the different types of capital markets that include primary and secondary markets, equity and debt securities that help in raising capital to finance the expansion of its operations, different instruments used in capital markets that include bond, shares, debentures among others.

It also examines the role of capital markets and how it contributes in allocation of capital, facilitation of economic growth, risk management among others. It discusses the functions of CMA that include low capital market financing, resource scarcity, liquidity issues, limited information among others.

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<sup>84</sup> Adenyuma Iji Gabriel & Nuwagaba Sheya, 'Regulatory Framework of the capital market in Uganda: An overview' [www.kiuj.kiu.ac.ug](http://www.kiuj.kiu.ac.ug) > accessed on 30<sup>th</sup> April, 2025

<sup>85</sup> Adenyuma Iji Gabriel & Nuwagaba Sheya, 'Regulatory Framework of the capital market in Uganda: An overview' [www.kiuj.kiu.ac.ug](http://www.kiuj.kiu.ac.ug) > accessed on 30<sup>th</sup> April, 2025

<sup>86</sup> *ibid*

## CHAPTER FOUR

### SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 7.0 INTRODUCTION

This chapter comprehensively analyses the findings, conclusions, and recommendations regarding the shortcomings of capital markets in Uganda. The findings will be in regard to what shortcomings the researcher has come up with, and therefore make a conclusion and provide recommendations on how policymakers, government and other stakeholders can sit at a round table and see how to mitigate these challenges to promote the growth and efficient development of capital markets in Uganda.

#### 7.1 SUMMARY OF FINDINGS

Theoretically, it is argued that the development of capital markets boosts economic growth. Capital markets serve various essential functions within the financial ecosystem. For instance, they help in the allocation of capital; hence, investors channel their savings into productive investments, enabling businesses to finance new projects, research initiatives, and operational expansions and fostering economic development. Capital markets also contribute to the economy through managing risks by offering diverse financial instruments such as derivatives, they also enhance liquidity by enabling investors to buy and sell securities freely and facilitating capital formation for those that seek readily tradable assets, they also help in the provision of market and raising of funds by sale of shares.<sup>87</sup>

As companies mature from start-ups to larger companies, they will usually require capital to finance the expansion of their operations. This capital can be raised through equity markets on a stock exchange or debt markets. Equity markets are essentially ownership shares of a business or venture, while debt markets are traded on the bond market and can come in the form of bonds or notes.<sup>88</sup>

Capital can also be raised in business through financial instruments, such as bonds, shares, debentures, and commercial papers. Uganda's capital markets industry deals in three products in which one can invest: shares, collective investment schemes, and corporate bonds.<sup>89</sup>

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<sup>87</sup> Adenyuma Iji Gabriel & Nuwagaba Sheya, 'Regulatory Framework of the capital market in Uganda: An overview' [www.kiuj.kiu.ac.ug](http://www.kiuj.kiu.ac.ug) > accessed on 30<sup>th</sup> April, 2025

<sup>88</sup> Ibid

<sup>89</sup> ibid

CMA is different from USE in that the CMA is a regulatory body that oversees the capital markets industry in Uganda, while USE is the actual market where capital markets products are traded. The CMA licenses and regulates USE.

Transactions under capital markets are facilitated by investment bankers, lawyers and accountants that ensure that the ownership transfer is legally executed and that enough investors are willing to invest their capital into the company.<sup>90</sup>

Capital markets are divided into primary and secondary markets. Primary markets are markets in which companies offer shares to members of the public for the first time, also known as an IPO, while secondary markets are markets where securities are traded on the stock exchange and can be bought or sold through a licensed broker or dealer.<sup>91</sup>

Capital markets have, to a large extent, improved the country's economic growth. However, it has faced various challenges in an attempt to facilitate the economy's growth. These include: market constraints, for instance, even when privatisation has occurred as a result of the divestiture of public assets for some of the privatised assets, the level of risks has remained high, where one large investor has retained a controlling interest. There are also government issues where there is the absence of easily accessible and up-to-date factual disclosure to help understand the country's institutional, legal and regulatory frameworks.<sup>92</sup>

Macro-specific constraints that have insider dealing in public affairs, characterised by cronyism, create economic rent-seeking opportunities that negate the benefits of proper business conduct. Lack of awareness on how capital markets operate by the public yet they could be potential investors which affects the development of capital markets and also liquidity issues where Uganda's stock exchanges are small, underdeveloped, illiquid and operate in isolation from other markets, have low trading volumes sheltered from competition by national regulations and face barriers to capital mobility.<sup>93</sup>

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<sup>90</sup> Adenyuma Iji Gabriel & Nuwagaba Sheya, 'Regulatory Framework of the capital market in Uganda: An overview' [www.kiuj.kiu.ac.ug](http://www.kiuj.kiu.ac.ug) > accessed on 30<sup>th</sup> April, 2025

<sup>91</sup> 'Capital Market Authority\_ What Is Capital Market\_' CMA Rwanda.

<sup>92</sup> Sejjaaka, Challenges to the Growth of Capital Markets in Underdeveloped Economies: The case for Uganda, pg. 10, available at [www.trustafrica.org/icbe](http://www.trustafrica.org/icbe) > accessed on 30<sup>th</sup> April, 2025

<sup>93</sup> ibid

## 7.2 CONCLUSIONS

In conclusion, the Ugandan capital market is underpinned by an enhanced regulatory framework that aims to meet international standards. Capital markets are essential to the financial sector as part of modernisation because developed markets promote economic growth through increased savings mobilisation and the spreading of risks in enterprises. Capital markets also help finance the public sector borrowing requirement while reducing the fiscal pressure of debt redemption if the maturities of securities are lengthened. Governments can also raise long-term funds through the capital market and enhance the creation of a robust yield curve.

In the case of privately held firms, capital markets provide a low-cost source of financing for risky ventures. Furthermore, if owners wish to opt out of the business, capital markets provide the most logical way of shedding their interest in it. However, their development in SSA continues to be slow, with the private sector failing to use them as vehicles for raising capital.<sup>94</sup>

Market development is a process and always takes time. There are several impediments to rapid growth, but they are always unavoidable; hence, capital markets need to be developed further to be responsive to the new challenges. This paper found that capital markets are challenged in many aspects including but not limited to governance deficit as a result of transparency issues leading to economic rent-seeking opportunities that negate the benefits of proper business conduct; low capital market financing as evidenced by an improved FDI without a correlative activity in the market meaning that capital financing is sourced primarily externally rather than locally; market constraints such as the mediocre state of the exchange, lack of marketability, information as well as public enlightenment challenges that if considered can be the basis of growing capital markets in underdeveloped economies.<sup>95</sup>

## 7.3 RECOMMENDATIONS

Encouraging increased entry of institutional investors is perhaps a critical strategy that could significantly boost Uganda's securities market. The USE and CMA should design regulations to increase the prospects available for attracting capital flow into the economy through the

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<sup>94</sup> Sejjaaka, Challenges to the Growth of Capital Markets in Underdeveloped Economies: The case for Uganda, pg. 10, available at [www.trustafrica.org/icbe](http://www.trustafrica.org/icbe) > accessed on 30<sup>th</sup> April, 2025

<sup>95</sup> Sejjaaka, Challenges to the Growth of Capital Markets in Underdeveloped Economies: The case for Uganda, pg. 10, available at [www.trustafrica.org/icbe](http://www.trustafrica.org/icbe) > accessed on 30<sup>th</sup> April, 2025

capital market; regulations should engender flexible capital requirements that encourage institutional investors to divert their resources to the market. Regulation should be geared towards balancing investor protection needs, as well as more disclosure requirements and transparency.

Legislative overhaul of the framework is critical at this stage to entrench governance best practices, strengthen free market operation and a formalized enlightenment regime, and strike a delicate balance between maintaining regulations that are not prohibitive for new players and keeping a watchful eye to ensure that investors are not abused by listed companies that ignore practices of good corporate governance.<sup>96</sup>

Another recommendation is that listing requirements are onerous, but need to be so because capital markets integrity is necessary for market growth. Secondly, the private sector needs to make a buy in and understand the relevance of capital markets in dissipating business risk and providing latitude in the magnitude of investment that can be achieved through savings mobilization. Thirdly, there is a need for professionalism in business management and sophistication in disclosure. This study has a number of policy implications that, if considered, can be the basis of growing capital markets in underdeveloped economies.<sup>97</sup>

The government should make a long-term policy commitment to providing a conducive environment for capital markets development, set out a planned and phased approach to achieve this, and dedicate adequate resources. The government should enforce the privatization contracts requiring formerly state-owned entities like Kinyara, Kakira and Tororo Cement to list on an exchange. Former state-owned entities listing on a stock exchange in fulfilment of their share sale agreement terms and conditions, widening listed options for investors.<sup>98</sup>

There should be increased trading of government securities in the secondary market. This should be done by allowing government securities to be traded on the USE by linking or consolidating the central depositories of the USE and BOU, increasing retail investor

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<sup>96</sup> F.B. Friedman & C. Grose, 'Promoting Access to Primary Equity Markets: A legal and Regulatory Approach,' World Bank Policy Research Working Paper 3892 of 2006. >

<https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-3892> accessed on 25th March, 2025.

<sup>97</sup> Matia Kasaija, 'Capital Markets Development Plan 2.0 of 2017 <https://cmauganda.co.ug> > accessed on 29<sup>th</sup> April, 2025.

<sup>98</sup> Ibid

participation in government securities trading. Review and amend Uganda's legal framework, including the Insolvency Act, to allow for securities lending and netting of contracts, which will increase market making and price discovery.<sup>99</sup>

There should be facilitation of municipal and infrastructure SPV's access to domestic and international savings through implementing the International Public Sector accounting standards, creating provisions in the exchange rules to enable listing of municipal bonds, identifying a local government or a state owned enterprise eligible to raise capital from capital markets and conduct a feasibility study to assess their capacity to raise capital from capital markets and where necessary provide technical assistance to improve capacity to raise capital from the capital markets and this will help bring up increased capacity of local government to raise capital through the capital market and also more SPVs set up due to clear, effective and efficient accounting treatment.<sup>100</sup>

Streamlining and simplifying 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. This can be through developing Bond Issuance Regulations creating restricted issuance, private placements and public issuances with different requirements, move towards disclosure based requirements and allow provisions for green bonds, municipal bonds and other types of bonds and this will help to allow for issuance of private and public issuance, green bonds, municipal bonds and other types of bonds as implemented by CMA.<sup>101</sup>

Improving the information available to investors in order to create an understanding of the higher rewards and higher risks offered by capital markets relative to bank deposits or other investments could be done through working with BOU to facilitate the sale of collective investment scheme products by banks, hence widened the reach of CIS products to retail investors.

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<sup>99</sup> Matia Kasaija, 'Capital Markets Development Plan 2.0 of 2017 <https://cmauganda.co.ug> > accessed on 29<sup>th</sup> April, 2025.

<sup>100</sup> Matia Kasaija, 'Capital Markets Development Plan 2.0 of 2017 <https://cmauganda.co.ug> > accessed on 29<sup>th</sup> April, 2025.

<sup>101</sup> Ibid

It could also be through promoting the teaching of capital markets in secondary schools and university curricula, thereby enabling students to understand and appreciate the importance of saving through the capital markets at an early age, as future investors in the capital markets.<sup>102</sup>

Enabling 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 and this could be through developing private equity and venture capital regulations, amending the Partnership Act to create appropriate legal entities for investment vehicles such as private equity funds and SPVs to encourage the growth and development of Uganda's private equity sector and increased investment in the market.<sup>103</sup>

Improving the capacity of market intermediaries in order to improve their ability to service the needs of issuers and investors effectively and attract more issuers and investors to the capital markets through review of the capital adequacy licensing requirements for brokerage firms and undertaking a review of the market certification program with the aim of strengthening it and ensuring full implementation for approved, authorized and licensed markets intermediaries in order to improve the skills, capacity and competence of approved, authorized and licensed market intermediaries.<sup>104</sup>

Review and amend the regulatory framework for issuance of securities to make issuance easier, quicker, and more attractive and eliminate or minimize duplicative procedures. CMA will review the fee structure and approval process for secondary offerings and establish a competitive fee structure that is favourable to issuers.<sup>105</sup>

Review licensing and supervision of market participants to achieve greater efficiency and cost; hence, CMA should adopt full risk-based supervision, where early identification of risks that are addressed in a systematic manner gives priority to the most important risks.<sup>106</sup>

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<sup>102</sup> Matia Kasaija, 'Capital Markets Development Plan 2.0 of 2017 <https://cmauganda.co.ug> > accessed on 29<sup>th</sup> April, 2025.

<sup>103</sup> ibid

<sup>104</sup> Ibid

<sup>105</sup> Matia Kasaija, 'Capital Markets Development Plan 2.0 of 2017 <https://cmauganda.co.ug> > accessed on 29<sup>th</sup> April, 2025.

<sup>106</sup> Ibid

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