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Leveraging Capital Markets for Domestic Resource Mobilisation and Tenfold Growth.

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1.0 INTRODUCTION

Uganda's national development agenda outlined under vision 2040, the Fourth National Development Plan (NDP IV), and anchored on the tenfold growth strategy promises to expand the country's GDP to USD 500 billion by 2040 from USD 50 billion in 2023. Achieving this monumental goal requires significant resources estimated at about UGX 593 trillion according to the National Planning Authority (NPA), of which 70 percent is expected to be mobilised domestically. A key aspect of the strategy is investment in strategic enablers and high-impact sectors such as Agro-Industrialisation, Tourism Development, Mineral-based Industrial Development (including Oil and Gas), and Advancements in Science, Technology, and Innovation (ATMS).

However, Uganda's domestic tax revenues remain small, with tax to GDP ratio estimated 13.5 percent of GDP in FY2025/26 against a target of 16-18 percent by the Ministry of Finance. Uganda's domestic revenue mobilisation (DRM) strategy has historically relied on the conventional sources of public finance such as taxation, enhancing public expenditure efficiency, improving fiscal compliance to broaden the tax base, and external debt as the main sources of DRM. Nevertheless, these reforms have not yielded into significant increases in tax revenue. With rising public debt now estimated at 53 percent of GDP and debt servicing costs consuming 47 percent of tax revenue, coupled with declining concessional financing and development assistance, government's fiscal capacity to drive the Ten-fold growth is constrained (MoFPED, 2025). Thus, there is need to leverage alternative financing mechanisms to achieve the tenfold growth.

Evidence suggests that countries that have successfully financed their development goals have done so through leveraging deep domestic capital and financial markets that mobilise domestic savings into long-term public

investment. For instance, domestic capital markets for government securities constitute an important source of DRM due to their potential to transform domestic savings into long term public investment financing. There is a growing body of evidence showing that countries with deep local currency bond markets have: lower sovereign borrowing costs, longer debt maturities, reduced refinancing risk, greater resilience to external shocks, as well as improved monetary policy transmission, and increased domestic savings mobilisation (Burger & Warnock, 2006; IMF, 2021; Demekas & Nerlich, 2020). Capital and financial market particularly play a pivotal role in fostering sustained economic growth and development by enhancing savings mobilising, efficient allocation of capital, facilitating risk management, and supporting innovation and entrepreneurship¹.

Deep, efficient, vibrant, liquid and well-functioning capital markets can support DRM by enabling access to affordable, long-term financing for infrastructure development while reducing reliance on external debt (Demekas and Nerlich, 2020; IMF, 2018). Through issuance of government securities such as treasury bonds,

¹ See (Levine, & Zervos, 1998; Levine, 2005, 1997; Levine, Loayza, and Beck, 2000a,b; Rajan & Zingales, 1996; King & Levine, 1993; Beck and Levine, 2004) for a detailed review.

infrastructure bonds, capital markets can provide an alternative avenue for financing government priorities using local-currency instruments which minimise exposure to exchange rate risks. In this regard Uganda's financial sector has developed a response strategy to support the government's ATMS, with a goal of mobilising the much-needed funding and significantly expanding private-sector credit to drive the tenfold growth strategy under the ATMS pillars.

To effectively support the ATMS, the banking sector seeks to extend UGX 490 trillion (approximately USD 134.2 billion) in private sector credit over the planned period up to 2040. A pressing question now is where will this money come from? Under the NDP IV, private sector credit growth is expected to rise from 7.3% to 29.6% by 2029/30. However, private sector credit to GDP in Uganda has stagnated at between 12.5 to 13 percent of GDP over the past decade insufficient to drive the tenfold growth and ATMS. Bank deposits to GDP have also stagnated estimated at between 15 to 21 per cent limiting credit growth (see, appendix figure, 1, 2 and 3).

Despite the potential of capital and financial markets in DRM, they remain underdeveloped and underutilised for domestic resource mobilisation especially in Africa (Soumaré, et al., 2021). In Uganda, capital markets remain relatively shallow and illiquid accounting for about 5.4 percent of GDP (CMA, 2017). Secondary market turnover ratios have fluctuated between 33 and 71 percent across 2024–2025, compared to 74 percent in Kenya and exceeding 1,200 percent in South Africa (World Bank, 2020; CMA Quarterly Bulletin

4Q2025). Domestic debt service consumes 47 percent of government revenues more than double the 16 percent threshold established under the public debt management framework (MoFPED, 2025). The yield on 10-year bond averaged of 17 percent at end-December 2024 (see, figure 7), against Kenya's 13.4 percent for a comparable instrument. Capital market development in Uganda is hindered by several structural constraints including weak market infrastructure, weak legal and regulatory framework, sovereign risks, high transaction costs, macroeconomic instability especially inflation, interest risk and foreign exchange risk, as well as inadequate access to timely information, and limited investor participation (Soumaré, et al., 2021; Laeven, 2014; IMF, 2008). This is further compounded by weak financial literacy among the public and a limited range of products which limit investor diversification further hindering growth. Underdeveloped capital markets impede efficient issuance, pricing, distribution, and secondary-market trading of sovereign debt. This leads to high borrowing costs, volatility in debt management, and constrained economic transformation.

This study examines, (i) the legal, institutional, and regulatory barriers to capital markets development and frameworks necessary for supporting a viable government securities market; (ii) examine the market infrastructure requirements for developing a vibrant market for government securities; and (iii) explore alternative products for broadening investor participation and deepening liquidity in the secondary market.

2.0 METHODS AND DATA

To achieve the above objectives, this study adopted a mixed-methods approach combining qualitative and quantitative approach such as document review, key informant interviews, case studies, and descriptive analysis to assess the state of Uganda's capital markets for government securities. This included a comprehensive review of national policies, legal and regulatory frameworks, institutional arrangements, and strategic documents. Comparative case studies

of Kenya and South Africa were undertaken to draw lessons from successful reforms and market development experiences. In addition, descriptive analysis of secondary data was used to examine trends in trading activity, liquidity, yields, market concentration, investor participation, and market structure, while also exploring the influence of regulatory frameworks, transaction costs, settlement systems, information asymmetries, risk perceptions, and investor behaviour on market depth, efficiency, resilience, and inclusiveness.

3.0 FINDINGS

3.1. Legal, regulatory, and institutional frameworks

Restrictive Regulatory Frameworks. The current legal and regulatory framework for government securities emphasizes prudential safeguards and capital preservation. Section 67 of the URBRA Act, 2011 requires funds to be invested according to prudent investment principles. Regulation 3(2)(c) of the URBRA (Investments of Scheme Funds) Regulations, 2014 requires investments to conform to prescribed asset classes and percentage allocations referred to under schedule 2. By requiring adherence to prudent investment principles and prescribing specific asset classes and allocation caps, fund managers may adopt conservative investment strategies that prioritize holding securities to maturity rather than actively trading them in the secondary market. This reduces the frequency of trading in secondary markets, thereby lowering market liquidity, reducing transaction volumes, and limiting the availability of securities for market participants seeking to buy or sell instruments before maturity.

The prescribed asset classes and allocation caps restrict fund managers' ability to diversify investments across a broader range of alternative financial instruments. Limiting exposure to specific asset classes may also increase portfolio concentration risk and reduce opportunities to optimize risk-adjusted returns by limiting fund managers' flexibility to actively rebalance portfolios through wider diversification across sectors, instruments, and maturities.

Effect of the Jamwa Judgment. In *Chandi Jamwa v Uganda* (Criminal Appeal No. 77 of 2011), Court of Appeal upheld the conviction that he acted unlawfully when he prematurely sold treasury bonds to a private financial institution at a price significantly lower than their guaranteed redemption value, causing a realised financial loss to the Fund. The Court found that he (i) ignored established investment procedures, (ii) failed to obtain competitive bids, (iii) disposed of the bonds before maturity without justification, and (iv) knowingly accepted a discounted price, all of which demonstrated that he knew or had reason to believe the transaction would cause financial loss. Based on these findings, the Court upheld his conviction for 'causing financial loss' under Section 20 of the Anti-Corruption Act, 2009. By criminalizing the pre-maturity sale of government bonds by a fund manager the ruling created a legal risk that institutional fund managers cannot ignore. The effect has contributed to "buy-and-hold" market preference into a legal necessity for managers of public funds.

Legal prohibition on securities lending and borrowing against securities. The URBRA Act 2011 Sec 68, Regulations 14(1) states "there shall be no borrowing or lending of securities of a scheme either for speculative investments or any other purpose." Regulation 14(2) further prohibits the use of scheme securities as collateral. These restrictions may limit securities lending, reduce market liquidity and trading activity, constrain the development of capital market instruments, and reduce the efficient mobilization of long-term domestic savings for investment and government financing.

Comparative analysis with south Africa.

Regulation 28 of the South African Pension Funds Act (as amended, 2011), provides that retirement funds may engage in securities lending under prescribed conditions (Regulation 28(6)), invest in derivative instruments (Regulation 28(7)), and maintain broader exposure to alternative and foreign investments. The revised framework was intended to strengthen corporate debt markets, improve liquidity management, facilitate investment in alternative assets, and avoid restrictive rules that could constrain market development. By contrast, URBRA (Investment of Scheme Funds) Regulations, 2014, under Regulation 14(1), prohibits against borrowing or lending of securities of a scheme either for speculative investments or any other purpose,” while Regulation 14(2) prohibits the use of scheme securities as collateral. This may inadvertently constrain active portfolio management, institutional investor participation, and market innovation. A review of these provisions could allow carefully regulated securities lending and collateralised transactions, while maintaining prudent safeguards to support capital market development and domestic resource mobilisation.

Absence of enabling legal framework for alternative capital market products.

Aside from the foregoing, Uganda’s government securities market is dominated by conventional treasury bills and bonds. Treasury bonds accounted for 87.2 percent of domestic debt as of June 2025 (MoFPED, 2025), while treasury bills comprised the remaining 12.8 percent. This single-product market structure limits investor participation to those whose mandates and risk profiles align with government debt, eliminates portfolio diversification opportunities, and prevents the yield curve from performing its price discovery function for the broader economy. It has also constrained government from issuing alternative

products such as infrastructure bonds, green bonds, diaspora bonds, sukuk bonds, among others.

In Kenya, the introduction of infrastructure bonds with tax incentives (income tax exemption on bond interest) created a dedicated asset class that attracted substantial pension fund participation, contributing to secondary market deepening and yield curve extension (Thotho, Wanjiku, & Amanja, 2021). Kenya’s infrastructure bond programme is explicitly enabled by legislation and supported by a Treasury issuance framework under the Internal Loans Act (Cap 420) and the Capital Markets Authority Act (Cap 485A). In contrast, Uganda has no similar legal framework for issuance of infrastructure bonds. Government announced intentions to issue infrastructure bonds for financing Standard Gauge Railway (SGR), and water infrastructure for National Water and Sewerage Corporation (NWSC) under the National Budget Framework Paper 2025/26–2029/30. However, these proposals lack the dedicated legal framework necessary for reinforcing investor confidence by ring-fencing proceeds and ensuring transparent use-of-proceeds, reporting requirements, independent verification mechanisms and secondary market liquidity arrangements.

Research by the Economic Policy Research Centre (EPRC, March 2025) on Uganda’s path to infrastructure bond implementation identifies four key success factors: sound macroeconomic management, expertise in project bonds, robust legal frameworks, and strong investor confidence. The study finds that infrastructure bonds generally outperform treasury bonds in risk-adjusted terms, but their effective implementation requires the legal and institutional infrastructure that Uganda currently lacks. As a result, there is an annual infrastructure financing gap of approximately USD

1.4 billion (World Bank, 2020). Meeting these targets through conventional treasury instruments alone given the high and rising domestic debt service cost is difficult without deepening market capacity and broadening product diversity.

Thus, these restrictions may reduce market participation and trading activity, weakening price discovery mechanisms, slowing yield curve development, and limiting the overall depth and efficiency of Uganda's secondary market for government securities. This may ultimately reduce the market's effectiveness in supporting government debt management and broader capital market development.

Distortionary impact of withholding (WHT) tax structure on sovereign borrowing costs.

Uganda's WHT tax structure on government securities interest creates an upward pressure on sovereign borrowing costs. Under the current framework, interest in government securities with maturities of less than ten years attracts a 20 percent withholding tax, while interest on securities with maturities of ten years or more are subject to a 10 percent withholding tax. With WHT rate applicable to non-resident investors holding government securities is 20 percent, irrespective of maturity which may discourage attracting foreign investors.

The impact of withholding tax on required gross yields is significant. For an investor targeting a net return of 13 percent after a 20 percent WHT, the gross yield is about 16.25 percent. For a 10 percent WHT on longer instruments, a net target of 14.5 percent requires a gross yield of approximately 16.1 percent. These tax-gross-up requirements embed 200–300 basis points of additional yield into Uganda's sovereign borrowing cost.

According to Capital Markets Authority (CMA) Collective Investment Schemes (CIS) sector analysis 2025, government securities yielded approximately 16 to 18 percent before tax. After withholding tax, returns settled at roughly 13 to 16 percent net. The withholding tax thus functions as a hidden borrowing cost premium embedded in every auction. To overcome this challenge, the 2024/2025 tax amendments introduced an exemption on profits from the disposal of government securities traded on the secondary market as part of incentives for private equity and venture capital funds. While this is a step in the right direction, it does not address the fundamental withholding tax distortion on interest income that drives the primary behavioral effect. A comprehensive tax policy review of government securities including reduction of WHT on treasury bonds and removal of WHT on infrastructure bonds is necessary to resolve this constraint.

Fragmented institutional and coordination challenges.

Uganda's current institutional framework for capital market regulation involves multiple institutions with overlapping mandates and differentiated accountabilities: Bank of Uganda (monetary policy, primary dealer oversight, and government securities issuance), the Ministry of Finance, Planning and Economic Development (fiscal policy, debt management, and public financial management), the Capital Markets Authority (securities market regulation and investor protection), and the Uganda Retirement Benefits Regulatory Authority (pension fund investment governance). Each of these institutions operates under its own legislative mandate, the Bank of Uganda Act Cap 51, Public Finance Management Cap. 171, Capital Markets Authority Act Cap. 84, and URBRA Act Cap 321 respectively.

This creates coordination challenges across these agencies and generates conflicting regulatory signals. For instance, when MoFPED pursues expansionary fiscal policy to meet development spending targets and Bank of Uganda tightens monetary policy to address inflationary pressures, the resulting simultaneous fiscal expansion and monetary tightening strains market liquidity, raises interest rates, and discourages secondary market activity. The sovereign yield curve loses its effectiveness as a benchmark when regulatory arbitrage exists across market institutions. For instance, inconsistencies between the BoU's primary dealer framework and the CMA's securities exchange oversight can result in fragmented reporting standards, thereby undermining price discovery and market transparency. South Africa's 'Twin Peaks' model, which separates prudential regulation from market conduct while requiring coordinated oversight, offers a governance model that Uganda could adapt to resolve these challenges.

Several specific coordination failures have been documented with direct consequences for secondary market development and DRM. Existing pension fund investment regulations under the (URBRA Act Cap 321) and CMA Act Cap 81 do not adequately provide for securities lending, repo transactions, or the use of derivatives for risk hedging, limiting institutional investor participation and market liquidity. Simultaneous fiscal expansion and monetary tightening strain market liquidity, raising interest rates and discouraging secondary market activity. This reinforces sovereign dominance, crowding out corporate bond issuance and long-term private investment. Policy incoherence also amplifies sovereign risk premia as investors perceive uncertainty around inflation, debt sustainability, and issuance paths. Higher yields and shorter investment horizons follow, limiting institutional

and foreign participation. The inconsistent policy signals impair market predictability, weakening secondary trading and maturity extension. Therefore, fiscal-monetary policy misalignment constrains efficient capital formation, reduces investor confidence, and prevents domestic bond markets from evolving into reliable platforms for long-term financing and private sector growth.

3.2 Market infrastructure challenges

Uganda's settlement infrastructure presents a fragmented and regionally uncompetitive picture. The Uganda Securities Exchange (USE) Trading Rules (2025) stipulate that government bond secondary market trades should be settled on a same-day (T+0) basis. However, in practice, the clearing and settlement cycle on the USE operates at T+2, creating a significant gap between stated regulatory intent and operational reality. The Bank of Uganda maintains separate settlement arrangements for the primary auction market, operating on a T+1 basis for auction bids. ALT East Africa introduced same-day settlement through the SWIFT system as part of efforts to modernise post-trade infrastructure, but implementation was suspended due to regulatory delays. This outcome crystallises the central settlement problem: the regulatory framework envisions same-day settlement, market ambition exists for SWIFT-enabled efficiency, yet institutional and regulatory implementation gaps prevent delivery.

The Bank of Uganda's government securities settlement system and the USE's Securities Central Depository operate in parallel, with different protocols, timelines, and regulatory oversight. The gap between the USE Trading Rules' stipulation of same-day secondary market settlement and the actual T+2 practice reflects

a failure to coordinate between the BoU, USE, and CMA in implementing a unified post-trade infrastructure. The Nairobi Securities Exchange (NSE) operates on a T+1 settlement cycle, while South Africa's STRATE settlement system enables full dematerialisation, with the Bank for International Settlements identifying it as a major driver of South Africa's deep and liquid bond and equity markets (Cantú and Chui, 2020).

Beyond settlement delays, The OECD Africa Capital Markets Report 2025 identifies transaction costs as a major barrier to liquidity in African equity markets, noting that the total two-way cost of trading a listed equity reaches up to 4 percent of traded value in Uganda, compared to less than 1 percent in Malaysia (0.8 percent), Indonesia (0.64 percent), and Peru (0.46 percent). For foreign portfolio investors who held approximately USD 2.8 billion (UGX 10.3 trillion) in Ugandan government bonds by December 2025, the combination of T+2 settlement, OTC search-based trading, and high transaction costs represents a meaningful barrier to active secondary market participation. As the IMF has warned, the recent foreign investment boom is fragile: if global liquidity tightens or frontier market risk appetite shifts, the absence of reliable exit options will accelerate capital flight.

Settlement inefficiencies compound the DRM challenge in three principal ways. First, foreign investors price the exit-illiquidity risk into their entry yields, requiring a premium above what a T+1 market would demand. Second, domestic primary dealers who finance their bond inventories through short-term borrowing face greater balance sheet risk when settlement cycles are long, reducing their market-making capacity and widening bid-ask spreads. Third, the current T+2 settlement cycle on the USE creates a regulatory-operational inconsistency that erodes confidence in the overall governance of Uganda's capital market infrastructure, reinforcing the perception that the market is not yet ready for large-scale institutional participation.

4.0 CASE STUDIES

4.1 Kenya

Kenya has implemented targeted reforms that have significantly strengthened access, efficiency, and liquidity in the secondary markets. In 2023, the Central Bank of Kenya (CBK) launched DhowCSD, an improved Central Securities Depository that offers a secure and accessible platform for investing in government securities (National Treasury and Economic Planning, 2024). The system supports direct participation in Treasury Bills and Bonds through mobile and web-based applications, helping to stimulate secondary market activity. Individual investors participate in the secondary market via Treasury Mobile Direct, while institutional and corporate investors use internet banking platforms to participate in auctions, track results, and monitor portfolios (National Treasury and Economic Planning, 2024). This integration of registry, custody, and settlement functions has widened public access, lowered entry barriers, and strengthened investor inclusion. As a result, Kenya has increased public participation in government bond financing and strengthened investor confidence in secondary markets (Gichuru, 2024).

Prior to the launch of DhowCSD, Kenya had progressed further than Uganda in automating secondary market trading, particularly with the 2009 introduction of the bond Automated Trading System (ATS), which enabled delivery-versus-payment and same-day settlement, thereby enhancing efficiency, turnover, price transparency, and liquidity (Thotho et al., 2021). Digital solutions such as M-Akiba and Treasury Mobile Direct allow investors to buy, trade, and manage small-value securities via mobile phones. Together with internet banking, CSD integration, and automated

OTC settlement for government securities, these innovations have expanded investor participation, market liquidity, and strengthened confidence in Kenya's secondary market (Thotho et al., 2021).

Beyond infrastructure reforms, Kenya has achieved greater product diversification beyond bonds and market depth. The introduction of instruments such as agriculture and infrastructure focused REITs, commodity exchange traded funds, carbon credit trading platforms, and other structured products has widened investment options and improved risk diversification (Gichuru, 2024). Uganda's secondary market, however, remains concentrated in conventional government securities, that is, treasury bills and bonds, limiting investor choice and participation

4.2 Capital-Market Reform Experience in South Africa

South Africa represents the most advanced capital-market system on the African continent, having undergone a series of coordinated legal, institutional, and market-infrastructure reforms over the last three decades. The International Monetary Fund (IMF, 2022) describes South Africa's financial markets as the most liquid and systemically developed in Sub-Saharan Africa, characterised by long-term government bond curves, an active derivatives market, and high levels of foreign and domestic investor participation. These outcomes are not incidental but stem from deliberate policy choices, especially reforms linked to market infrastructure, pension regulation, prudential oversight, and governance of state-owned enterprises.

A foundational reform involved modernising market infrastructure with demutualisation of the Johannesburg Stock Exchange (JSE) in 2005 which transformed it from a member-owned organisation into a profit-oriented public company able to raise capital, invest in technology, and strengthen governance. The introduction of fully electronic trading in the 1990s and the establishment of the Share Transactions Totally Electronic (STRATE) settlement system enabled full dematerialisation of securities, reduced settlement risk, and aligned the South African market with international post-trade standards (Haron and Gorringer, 2018). According to the Bank for International Settlements (Cantú and Chui, 2020), South Africa's dematerialised and centralised settlement environment is a major reason for its deep and liquid bond and equity markets. For Uganda, where the Uganda Securities Exchange (USE) and the Securities Central Depository are still evolving, South Africa's experience demonstrates the importance of strong settlement architecture, demutualised governance, and technology-driven reforms in enhancing market depth and investor confidence.

Regulatory reforms have also been central with the enactment of financial Sector Regulation Act (2017) which introduced the "Twin Peaks" model, separating prudential regulation and market conduct. This created the Prudential Authority within the South African Reserve Bank and the Financial Sector Conduct Authority (FSCA) as the dedicated market-conduct regulator. Van Zyl and Botha (2019) highlight that this model strengthened supervisory clarity, improved consumer protection, and improved systemic oversight across capital-market participants. The FSCA's strong enforcement powers, combined with prudential stability oversight by the Reserve

Bank, have produced a regulatory environment that balances investor protection with market innovation (FSCA, 2020). Uganda, which currently relies on a multi-agency framework involving CMA, BoU, URBRA and MoFPED, can learn from South Africa's more integrated approach that emphasises clear mandates, coordinated supervision, and risk-based monitoring.

A third pillar has been South Africa's pension-industry regulation. Pension funds are the largest institutional investors in the domestic market and, according to OECD (2025), account for a significant share of GDP relative to the rest of the continent. Regulation 28 of the Pension Funds Act sets explicit quantitative limits for pensions across asset classes, encouraging diversification while permitting substantial allocations to equities, bonds, property, infrastructure, and alternative investments. Studies by FSD Africa (2022) show that Regulation 28's balanced guidelines have enabled pension funds to support long-term domestic investment while maintaining prudent risk controls. The Investment and Savings Association of South Africa (ASISA, 2021) similarly emphasises that these rules have underpinned strong institutional demand for government and corporate securities, contributing to market stability and depth. For Uganda, where pension assets remain concentrated in government securities and investment rules for schemes outside NSSF are still emerging, South Africa illustrates how clear, flexible, and developmental investment regulations can mobilise long-term domestic capital into broader segments of the market.

South Africa has also attempted to broaden retail participation through instruments such as the RSA Retail Savings Bonds, introduced by National Treasury to provide households access to fixed-rate and inflation-linked government securities in small denominations. Du Toit (2020) notes that although retail participation remains modest, the programme has improved financial inclusion and diversification of the investor base. This complements South Africa's deeper institutional markets and offers a model for Uganda's ongoing efforts to expand retail investment in government securities.

Finally, corporate-governance and state-owned enterprise (SOE) reforms have played an important role in improving transparency and creating a pipeline of investable assets. OECD (2025) highlights that South Africa's adoption of the King IV governance code and improvements

in disclosure standards for listed companies have supported investor protection and market integrity. Governance reforms in major SOEs, though uneven have also been aimed at strengthening board oversight, increasing transparency, and enabling some SOEs to access capital markets under clearer rules. For Uganda, where SOEs such as UEDCL, UETCL, and NWSC could become future candidates for bond issuance or partial listing, South Africa underscores the importance of aligning governance structures with capital-market objectives.

Overall, the South African case demonstrates that deep and efficient capital markets are the cumulative result of market infrastructure development, robust and coordinated regulation, institutional investor mobilisation, retail-market inclusion, and corporate-governance reforms which lessons are directly relevant for Uganda.

5. CONCLUSIONS

This paper has argued that Uganda's persistent domestic resource mobilisation challenge reflects a structural failure of secondary government securities markets rather than a narrow deficiency in tax policy or fiscal discipline. The absence of deep, liquid secondary markets for government debt often inflates sovereign borrowing costs through liquidity premia, amplifies rollover risk, and undermines the effectiveness of otherwise sound fiscal and legal reforms.

The evidence shows that Uganda's government securities are largely trapped on balance sheets, with limited trading, weak price discovery, and a highly concentrated investor base. In such an environment, sovereign yields reflect compensation for illiquidity as much as compensation for credit risk.

6. RECOMMENDATIONS

Amend URBRA Investment Regulations to provide for Active Portfolio Management and lending or borrowing against securities. Regulation 14 of the URBRA (Investment of Scheme Funds) Regulations, 2014 should be amended to permit active securities lending, repo transactions, and the use of government securities as collateral under prescribed prudential conditions. Legislative or regulatory amendment should simultaneously provide clear legal safeguards for fund managers who engage in secondary market trading for legitimate portfolio management purposes, neutralising the effect of the Jamwa precedent. Minimum allocation floors to alternative asset classes (infrastructure bonds, green bonds, and private equity) should be considered alongside maximum ceilings to create genuine diversification incentives.

Enact an Alternative Instruments Framework. Uganda requires dedicated legislation or statutory instruments governing the issuance, listing, trading, and disclosure requirements for alternative instruments such as SUKUKU bonds, infrastructure bonds, green bonds, diaspora bonds, and project bonds. While this is under consideration by the CMA, it has delayed. This framework should specify use-of-proceeds, verification and certification standards, credit enhancement mechanisms, tax treatment (including extension of withholding tax exemptions applicable in Kenya), and secondary market liquidity arrangements. The Bank of Uganda's ongoing GMRA framework for repo provides an anchor on which a broader securities lending and alternative instruments legal architecture can be built.

Reform the Withholding Tax Structure on Government Securities. A comprehensive cost-benefit analysis of WHT reform on government securities interest income should be conducted, modelling the fiscal cost of WHT reduction against the expected benefit of lower sovereign borrowing costs and increased secondary market activity. The analysis should consider a phased reduction from 20 percent to 15 percent for short maturities, harmonisation at 10 percent across all government securities, and eventual elimination for secondary market transactions to incentivise active trading.

Establish a Permanent Inter-Agency Coordination Mechanism. A Capital Markets Development Coordination Committee, co-chaired by MoFPED and the Bank of Uganda, with CMA and URBRA as permanent members, should be formalised with a statutory mandate to ensure alignment of fiscal, monetary, and capital market regulatory policies. This body should oversee the benchmark bond programme, coordinate government securities issuance calendars, harmonise settlement system development, and ensure that legal reforms across URBRA, CMA, and BoU mandates are sequenced and implemented coherently.

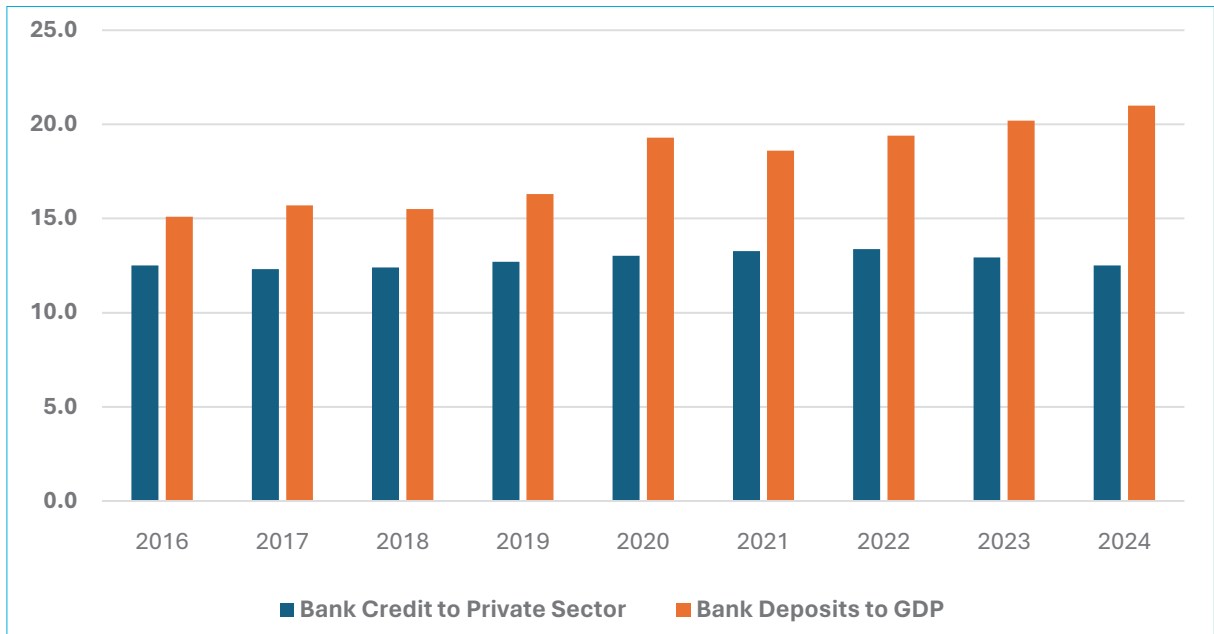
Introduce repo and securities lending markets. Review and amend section 67 and 68 of the UBRA Act to allow regulated securities lending and collateralised borrowing against securities transactions, while maintaining prudent safeguards to support capital market development and domestic resource mobilisation.

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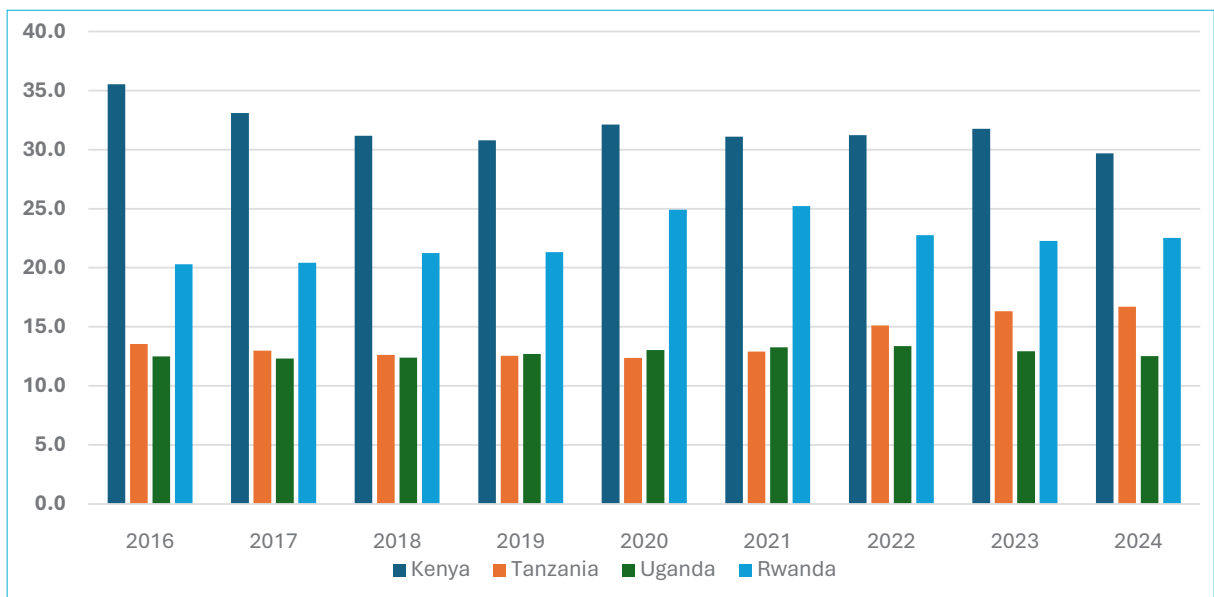
APPENDIX

Figure 1: Bank Credit to Private Sector vs Bank Deposit to GDP in Uganda



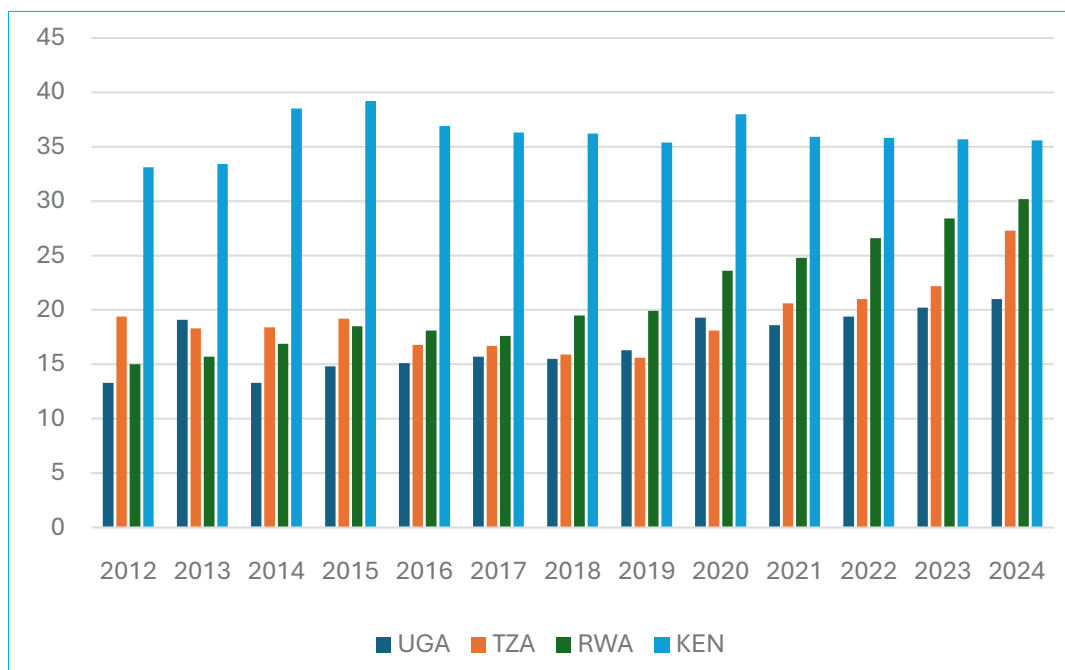
Source: IMF Financial statistics, WB GDI (2025)

Figure 2: Domestic credit to private sector by banks (% of GDP) for Selected EAC Countries



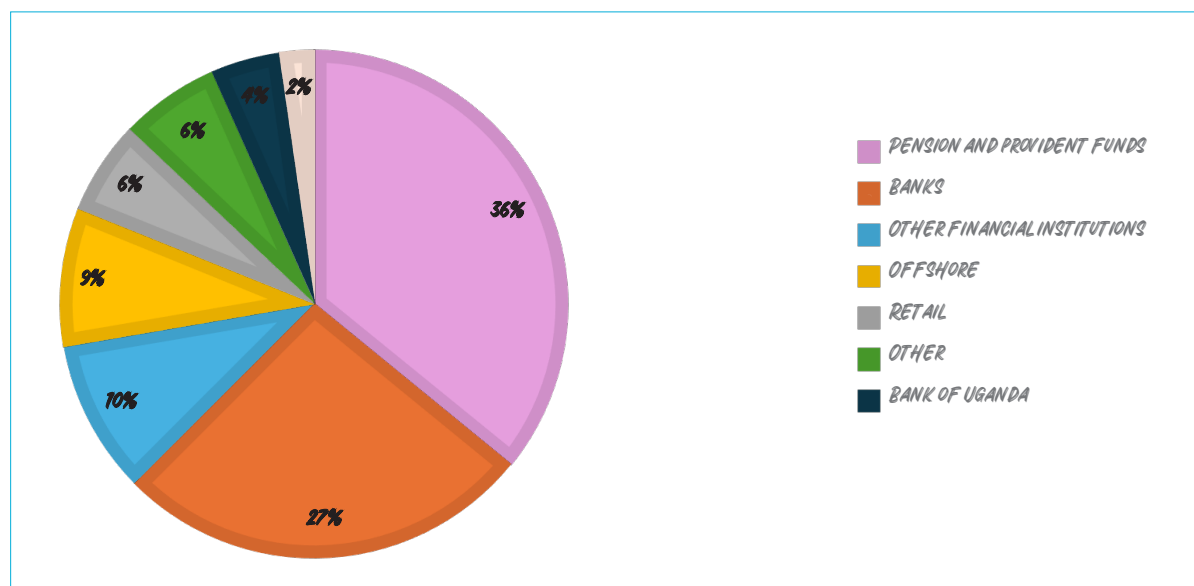
Source: IMF Financial statistics, WB GDI (2025)

Figure 3: Bank Deposit to GDP for Selected EAC Countries



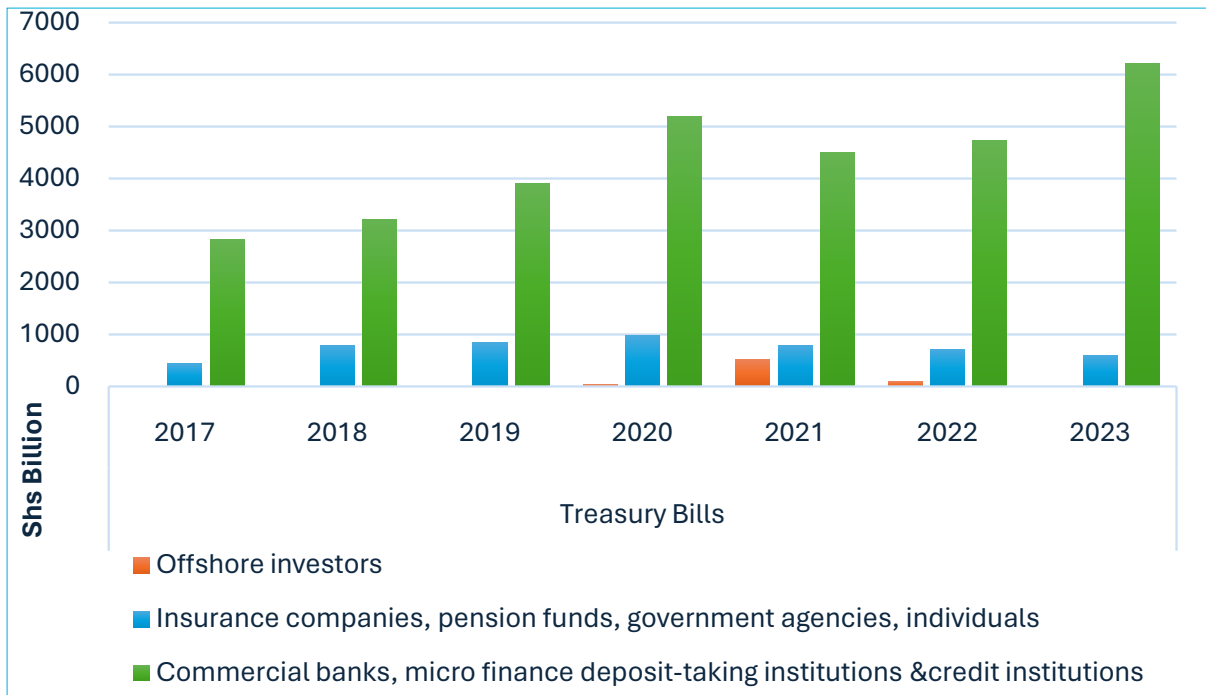
Source: IMF Financial statistics, WB GDI (2025)

Figure 4: Stock of government bonds at face value by investor (June 2024)

Source: MoFPED, 2024²²Annual Debt Statistical Bulletin and Public Debt Portfolio Analysis

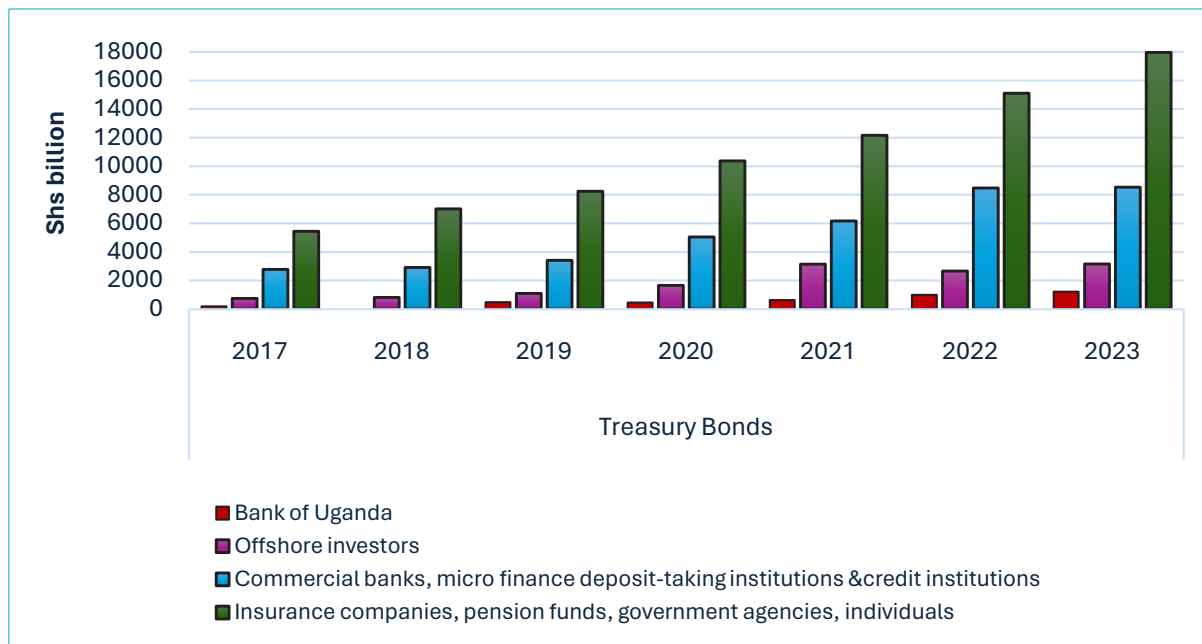
Investor base structure

Figure 5: Investor composition in treasury bills



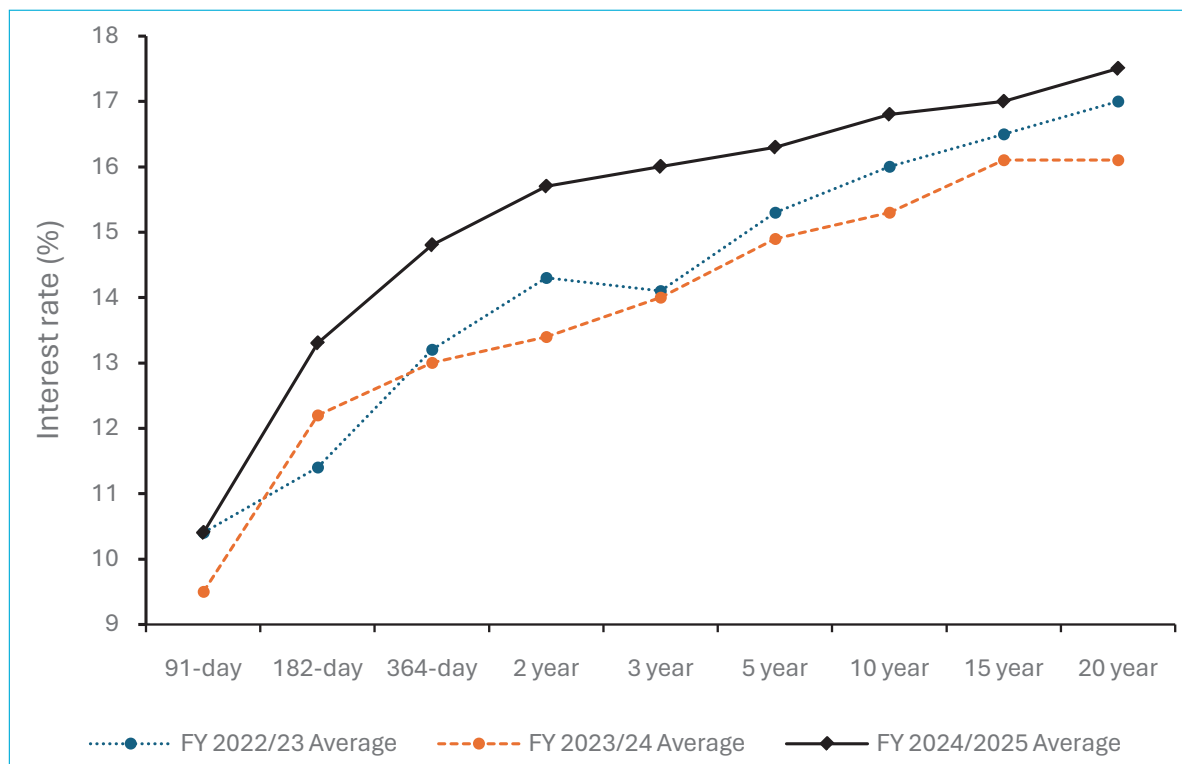
Source: Bank of Uganda statistical abstracts

Figure 6: Investor composition in treasury bonds



Source: Bank of Uganda statistical abstracts

Figure 7: Annualized yields across all treasury bond maturities



Source: Bank of Uganda, Annual Report



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