



## Capital Raising Landscape in Uganda: Legal Framework and Marketplace Practices

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### Introduction

Capital raising plays a pivotal role in driving economic development and fostering entrepreneurship. From startups seeking seed funding to SMEs looking to expand, or large enterprises aiming to scale further, access to capital is essential to unlocking growth potential and realizing business objectives.

### Defining Capital Raising

Capital raising is the process through which businesses secure funding to finance their operations, expansion, or investment initiatives. These financial resources can come from various sources, including investors, lenders, or through equity or debt offerings.

### The Business Landscape in Uganda

Uganda's economy is predominantly driven by the private sector, which contributes approximately 80% of the country's GDP. According to the World Economic Forum, limited access to finance is one of the main challenges faced by small and medium enterprises (SMEs) in Africa, with about 40% of SMEs struggling to secure financing.

This percentage rises to 70% for Ugandan businesses. Most businesses in Uganda rely on short-term debt from banks, often viewed as the only viable option. However, several avenues are available for businesses to raise capital, including debt and equity financing. The choice of financing typically depends on the company's needs and stage of development. For example, while debt financing may suit well-established entities, it may not be viable for an SME aiming to expand its operations due to the risks of prioritizing loan repayments or defaulting.

### Addressing the Challenge of Limited Access to Finance

This article discusses the regulatory framework for capital raising and the different avenues available to businesses in Uganda to finance their objectives.

### The Legal Framework for Capital Raising

In Uganda, the capital-raising process is regulated by several government bodies, including the Capital Markets Authority, Bank of Uganda, Uganda Investment Authority, and Uganda Revenue Authority. Key legislation includes the Capital Markets Authority Act, 1996, the Companies Act, 2012, the Investment Code Act, 2019, and the Securities Central Depository Act, 2009.

### The Capital Raising Market

There are various avenues through which companies can raise capital in the form of debt and equity finance to achieve both short- and long-term business objectives.

#### 1. Private Equity and Venture Capital

Under this model, private equity firms or venture capital firms offer capital in exchange for equity ownership in a company. This avenue provides businesses with substantial capital, expertise, and networking opportunities. However, it requires business owners to give up ownership and control during the investment cycle and may require stringent due diligence and compliance.

Historically, private equity investments in Uganda were predominantly managed remotely from Kenya. However, this dynamic has shifted with the recent establishment of private equity firms within Uganda. This positive change has been largely driven by regulatory reforms aimed at attracting private equity investments and facilitating smoother business operations. This market holds significant growth potential, offering an alternative source of funds to finance the private sector, a critical priority for the government to enhance economic growth.

#### 2. Private Placement

This form of capital markets financing targets a small number of high-net-worth and sophisticated investors or institutions. Companies sell their shares to pre-selected investors in exchange for equity or debt. Private placements are an alternative to Initial Public Offerings (IPOs) and are favored for their faster share-selling process, fewer regulatory requirements, and the ability to retain more control over the company.

### 3. Public Offering

Public offerings involve selling securities, such as shares or corporate bonds, to raise capital. This process is regulated by the Capital Markets Authority. The advantage of this method is the broader pool of investors, increasing the chances of raising a significant amount of capital. However, it comes with additional compliance requirements on corporate governance, which is crucial for building stakeholder confidence for future capital raising.

### 4. Crowdfunding

Crowdfunding enables businesses to raise money from many people through campaigns or online platforms. Although still in its infancy in Uganda, this method holds potential, especially for startups and creative projects.

### 5. Angel Investors

Angel investors are affluent individuals who provide capital to startups or early-stage businesses in exchange for equity ownership. These investors usually bring valuable industry expertise and networks, which are critical for business growth. In Uganda, networks such as the Uganda Angel Investors Network (UAIN) and Kampala Angel Investors Network are helping to formalize and grow this capital-raising market.

### 6. Bank Financing

This is the primary source of capital for most businesses in Uganda. It includes bank loans, lines of credit, and trade finance from financial institutions. This method of financing suits businesses with steady cash flows and collateral. However, stringent lending criteria, collateral requirements, and high-interest rates may exclude some businesses from exploring this avenue.

### 7. Microfinance Institutions

These institutions play a crucial role in providing capital to micro and small businesses in Uganda that may not qualify for traditional bank loans. Microfinance loans are usually smaller and come with more flexible terms, though often at high interest rates.

### 8. Government and Donor Programs

The Government of Uganda offers various support to businesses through collaboration with international donors. Support includes grants, subsidized loans, and guarantee schemes. Government agencies such as the Microfinance Support Center and Uganda Development Bank provide credit to microfinance institutions and businesses that align with national development goals

### Conclusion

Limited access to finance and high capital costs are significant constraints to business growth in Uganda. To address this challenge, business owners need to be equipped with knowledge of the available capital-raising options to expand their funding sources. At JRK Advisory, we understand how critical access to affordable finance is for businesses to achieve their goals. We are committed to providing corporate finance advisory services to support our clients in navigating and unlocking funding opportunities.

### Contact for the publication



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Before founding JRK Advisory Limited, she served as a Global Structuring Manager at MBO Partners in the United States. She has also held positions as a Legal and Tax Consultant at KPMG Uganda and as a tutor at the Uganda Christian University School of Law.

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