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2024 **Tax exemptions.** In 2024, Uganda introduced capital-gains tax exemptions for locally domiciled private-equity and venture-capital fur encouraging more vehicles to base themselves in the country.

Capital. A large pool of domestic capital remains largely untapped.

Why Uganda capital markets don't serve small businesses

With capital markets still hard to access, many small firms rely on internal profits, prompting calls for incentives and pension funds to finance business growth.

BY DEOGRATIUS WAMALA

The contrast between large and small firms that shuts out the latter from financing options of the former, including bank loans, equity investors, venture capital, commercial paper, and public listings on the Uganda Securities Exchange (USE), has come into focus.

According to Makerere University's Economic Policy Research Centre (EPRC), 49 percent of firms finance work capital through retained earnings, with only around 28 percent relying on commercial banks. High borrowing costs, often above 20 percent, discourage reliance on bank credit.

"Financing expansion through internal profits alone tends to produce slow, incremental growth rather than the kind of large investments needed to transform a business," says Job Lakal, a Ugandan economist, who previously served as a research analyst at the EPRC, focusing on macroeconomics, debt sustainability, and business growth.

Capital markets could provide that "big push." Listing can unlock large pools of capital and improve governance and transparency, making firms more attractive to investors and partners. But several barriers keep most companies away. Many Ugandan enterprises operate informally or as sole proprietorships, while only about 8.0 percent are structured to raise equity capital, EPRC data shows.

Investors also require audited accounts and credible records, but many small and medium enterprises (SMEs) maintain incomplete or informal accounts, creating information asymmetry. Even for firms that could consider listing, costs remain a barrier. Private financing; bank loans, Saccos, or non-bank lenders, remains cheaper and simpler.

"If you're raising capital from the exchange versus private markets, it is much cheaper in the private markets," says John Kamara, the country manager of Xeno Asset management.

How? Beyond interest rates, listing brings legal, audit, and compliance costs that smaller firms struggle to justify. Valuation can also discourage participation, as investors demand steep discounts for perceived risk.

A market vendor poses for a picture next to his merchandise in the main market of Kampala.

"Maybe if you're a large multinational it makes sense," Kamara adds, "but if you're an SME, investors will price in a lot of risk."

A large pool of domestic capital remains largely untapped. The pension industry, for instance, holds at least Shs25.4 trillion in assets under management, according to data from the Uganda Retirement Benefits Regulatory Authority (URBRA), yet only a small share reaches early-stage or growing enterprises, with most flowing into government securities and other low-risk assets. Industry players argue that redirecting even a modest portion toward venture capital and private equity could transform financing for local businesses.

THE NUMBERS

49%
Financing. Percentage of firms that finance work capital through retained earnings.

20% ▲
Bank credit. Percentage of firms that often discourage reliance on bank credit.

8% ▼
equity capital. Percentage of firms that are structured to raise equity capital.

"Local capital must lead local development," says Amanda Kabagambe, an economist, fund manager, and transaction advisor with experience working in various emerging markets.

"We should not be sending our startups to Europe to pitch mobile-money solutions to Europeans who have never used mobile money," she adds.

In 2024, Uganda introduced capital-gains tax exemptions for locally domiciled private-equity and venture-capital funds, encouraging more vehicles to base themselves in the country. These funds typically invest in small and growing businesses; the backbone of job creation. They create jobs, formalise employment, and contribute significantly to pension remittances.

Private-equity investment also tends to improve governance and financial reporting, pushing companies further into the formal economy. The most obvious domestic investor is the National Social Security Fund (NSSF), Uganda's largest institutional fund. Regulations allow pension schemes to allocate up to 15 percent of their portfolios to private equity and venture capital. In practice, the allocation remains minimal at around 2.0 percent of their assets, URBRA data shows, with a preference for safer government securities.

Structural challenges

A 2025 study by the EAVCA and Financial Sector Deepening Uganda found that over 70 percent of capital flowing into regional venture-capital and private-equity funds still comes from foreign development finance institutions.

"Funding from Development Financial Institutions (DFIs) is drying up," Kabagambe warns. "If we're not funding our own businesses, we already know the death rate of our local enterprises," she adds.

Local capital reduces currency risk: many African startups raise funding in dollars while earning revenue in local currency. Investing local capital into local businesses immediately hedges against currency risk. Regulators now face a question: are voluntary allocations enough?

Uganda's pension framework; under the Uganda Retirement Benefits Regulatory Authority Act and its 2014 investment regulations, sets maximum exposure limits: private equity up to 15 percent, shares 7
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