

Analysis of the Legal and Institutional Framework Governing Lease Financing in Uganda

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Abstract: (This study examines the legal and institutional framework governing lease financing in Uganda, assessing its effectiveness in promoting access to finance, legal certainty, and financial sector development. It adopts a doctrinal legal research methodology, relying on analysis of statutes, regulations, case law, and scholarly literature, alongside relevant international instruments such as the UNCITRAL Legislative Guide on Secured Transactions and key domestic laws including the Financial Institutions Act and the Security Interest in Movable Property Act, 2019. The study finds that while Uganda has made significant progress in establishing a regulatory framework for leasing supported by institutions such as the Bank of Uganda and the Uganda Registration Services Bureau the regime remains fragmented, with inconsistencies in classification, enforcement, and institutional coordination that limit its effectiveness, particularly for SMEs. It concludes that although the existing framework provides a foundational basis for lease financing, it requires greater harmonisation, clearer legal definitions, and strengthened institutional capacity to fully realise leasing's potential as a tool for financial inclusion and economic development in Uganda.)

Keywords— (Lease financing; legal framework; financial institutions; secured transactions; small and medium-sized enterprises (SMEs); Uganda)

1. INTRODUCTION

This article undertakes a critical analysis of the legal and institutional frameworks governing lease financing at both the international and domestic levels, with particular focus on Uganda. It examines the influence of key international instruments, including the UNIDROIT Convention on International Financial Leasing and the Cape Town Convention on International Interests in Mobile Equipment, alongside soft-law standards such as the UNCITRAL Legislative Guide on Secured Transactions, in shaping leasing practices and harmonising cross-border transactions.

The objective is to evaluate the extent to which these frameworks facilitate or constrain the development, regulation, and uptake of lease financing, particularly in relation to access to credit, legal certainty, enforceability of rights, and investor protection. The article further interrogates the coherence and effectiveness of the existing legal regime, identifying structural gaps, overlaps, and institutional limitations that may impede the growth of a robust and inclusive leasing market in Uganda..

2. METHODOLOGY AND THEORY

The study adopts a doctrinal legal research methodology, focusing on a systematic analysis of primary legal sources such as statutes, regulations, and relevant case law, as well as secondary sources including textbooks, journal articles, policy papers, and international legal instruments. Doctrinal methodology involves "systematic analysis of primary legal sources such as statutes, regulations, and relevant case law" alongside secondary sources, focusing on "critical

interpretation and evaluation" of legal frameworks. (Hutchinson, 2012)

Financial Intermediation Theory,(Scholtens, 2003) explains how financial intermediaries, such as banks, leasing companies, and investment firms, facilitate the flow of funds between savers (surplus units) and borrowers (deficit units), addressing market imperfections including information asymmetry, transaction costs, and risk management challenges that would otherwise prevent direct lending from occurring efficiently.

3. ANALYSIS OF THE LEGAL FRAMEWORK

International Legal

The international framework for lease financing is shaped by various treaties, conventions, and soft-law instruments developed by international bodies. These frameworks aim to harmonize leasing practices, promote cross-border transactions, and ensure legal certainty for international investors.

3.1.1 The Convention on International Financial Leasing

The Convention on International Financial Leasing, developed by UNIDROIT Convention on International Financial Leasing, provides a foundational framework for cross-border leasing by harmonising legal rules governing financial leases and reducing uncertainty arising from divergent national laws. A central feature of the Convention is the principle of party autonomy, reflected in Article 5(1), which provides that "the rights and duties of the parties under

a leasing agreement shall be determined by the terms of the agreement and by this Convention.” This provision entrenches freedom of contract in international leasing, allowing parties to structure transactions according to commercial needs and risk allocation preferences, a principle consistent with modern contract theory (Davydova et al., 2021). The Convention also distinguishes the lessor as a financier rather than an operator of leased equipment, thereby limiting liability and allocating risk primarily to the supplier and lessee.

This limitation of liability is expressly reflected in Article 8(1), which provides that “the lessor shall not be liable to the lessee in respect of the equipment except to the extent that the lessee has suffered loss as a result of reliance on the lessor’s skill and judgment,” while Article 8(2) further insulates the lessor where the lessee selects the supplier. This principle was judicially reinforced in *United Technologies v MTL Leasing*, where the court held that commercial parties are bound by freely negotiated contractual terms unless there is clear evidence of misrepresentation or fundamental mistake, thereby affirming contractual certainty in complex financial transactions. The Convention further strengthens enforcement through Article 13(1), which permits the lessor, upon default, to “declare the lease terminated, recover possession of the equipment, and claim damages,” alongside Article 13(2), which allows recovery of accrued rentals and accelerated payments. In *Blue Sky One Ltd v Mahan Air*, the court similarly upheld the sanctity of contractual rights in international leasing arrangements, reinforcing the Convention’s emphasis on predictability and enforceability in commercial leasing markets.

3.1.2 The Cape Town Convention on International Interests in Mobile Equipment

The Cape Town Convention on International Interests in Mobile Equipment,¹ together with the Aircraft Protocol, establishes a unified international legal framework governing leasing, security interests, and financing of high-value mobile equipment such as aircraft. It introduces the concept of an “international interest,” defined in Article 2(1) as an interest arising under “a security agreement, a title reservation agreement or a leasing agreement,” thereby harmonising different forms of asset-based financing within a single legal structure. Registration under Article 19(1), which provides that an international interest “may be registered in the International Registry,” ensures transparency and enforceability, while Article 29(1) establishes priority by providing that a registered interest prevails over later or unregistered interests. These provisions significantly reduce legal uncertainty, particularly in insolvency and cross-border enforcement contexts, thereby strengthening creditor confidence and lowering financing costs (Osiecki, 2016; Kraemer-Eis & Lang, 2012). In addition,

Article 8(1) empowers creditors, upon default, to “take possession or control of any object charged to it,” while Article 13 provides for “speedy relief,” ensuring efficient enforcement and preservation of asset value in default situations.

Judicial practice has reinforced the Convention’s principles of contractual certainty and robust protection of lessor rights in international leasing. In *Blue Sky One Limited & Ors v Mahan Air & Anor*, the English High Court upheld the enforceability of rights under international aircraft leasing arrangements, reflecting the Convention’s emphasis on predictability and party autonomy (*Blue Sky One Ltd v Mahan Air*, 2009). Similarly, in *Wells Fargo Bank Northwest NA v Administrator of Civil Aviation Authority of Nigeria*, the court held that the Nigerian Civil Aviation Authority could not rely on sovereign immunity under the State Immunity Act 1978 because its detention of leased aircraft constituted a commercial act, not a sovereign function (*Wells Fargo Bank Northwest NA v NCAA*, 2010). These decisions reinforce the principle that entities engaging in leasing transactions are subject to ordinary commercial obligations, thereby strengthening global confidence in cross-border leasing enforcement. In the context of Uganda, which has not yet ratified the Convention, the absence of this harmonised regime continues to create legal uncertainty in sectors such as aviation and equipment leasing, limiting access to competitive international financing.

3.1.3 The World Bank's Principles for Effective Insolvency and Creditor/Debtor Regime

The World Bank's Principles for Effective Insolvency and Creditor/Debtor Regimes,² and the UNCITRAL Legislative Guide on Secured Transactions,³ play a significant, albeit indirect, role in shaping the legal environment for financial leasing by promoting coherent, predictable, and efficient systems of credit, collateral, and insolvency. Although neither instrument regulates leasing directly, both provide influential normative benchmarks for domestic legal reform, particularly in developing economies seeking to strengthen asset-based financing. The World Bank Principles emphasise that “creditor rights and enforcement systems should provide a clear and predictable framework for the enforcement of security interests” (World Bank, 2015, Principle A1), thereby reinforcing the legal certainty required for lessors to extend credit confidently. They further stress that “enforcement of security interests should be prompt, inexpensive, and predictable” (World Bank, 2015, Principle A4), reflecting the importance of timely repossession and enforcement in preserving the value of leased assets. In insolvency contexts, the Principles provide that “secured creditors should be protected against the erosion of the value of their collateral” (World Bank, 2015, Principle C11), thereby safeguarding the

¹ The Cape Town Convention on International Interests in Mobile Equipment (2001)

² The World Bank's Principles for Effective Insolvency and Creditor/Debtor Regimes (2011)

³ The UNCITRAL Legislative Guide on Secured Transactions (2007)

core interests of financial lessors and strengthening the viability of leasing even in distressed financial environments.

Similarly, the UNCITRAL Legislative Guide on Secured Transactions promotes a modern, functional approach to secured credit that explicitly supports asset-based financing, including financial leasing. It encourages the adoption of unified legal frameworks that recognise the economic substance of transactions rather than their form, and recommends the establishment of centralised collateral registries and clear priority rules based on registration. The Guide further provides that “a secured creditor should have the right to enforce its security right in a commercially reasonable manner” (UNCITRAL, 2007), reinforcing efficiency in enforcement and reducing transaction costs. Together, these instruments reflect broader principles of contractual theory and transaction cost economics by reducing information asymmetry, strengthening creditor protection, and improving enforcement predictability. In doing so, they indirectly facilitate the growth of leasing markets by enhancing access to finance and lowering the cost of capital (Bilkhu, 2021).

3.1.4 The UNCITRAL Legislative Guide on Secured Transactions

The UNCITRAL Legislative Guide on Secured Transactions,⁴ The UNCITRAL Legislative Guide on Secured Transactions is a foundational soft-law instrument in the modernization and harmonisation of secured credit law, with significant implications for financial leasing. It advances a unitary and functional approach to secured transactions, whereby the law focuses on economic substance rather than formal classification. In this respect, it recommends that “the law should apply to any transaction that creates a security right, regardless of its form” (UNCITRAL, 2007, Introduction para. 101). This approach ensures that financial leases, particularly those where ownership is retained primarily as security, are treated within the same legal framework as other secured financing arrangements. The Guide further requires publicity through registration, providing that “a security right is effective against third parties only if it has been made public by registration or other appropriate means” (UNCITRAL, 2007, Ch III). This enhances transparency, reduces hidden interests, and strengthens creditor protection. It also promotes clear priority rules based on registration, thereby increasing predictability and reducing disputes among competing claimants.

The Guide equally emphasizes efficient enforcement and insolvency responsiveness as central to a functioning credit system. It provides that secured creditors should be able to enforce their rights in a “commercially reasonable manner” (UNCITRAL, 2007, Ch V), including through expedited or out-of-court procedures where appropriate. This is particularly important for leasing, where asset value can deteriorate quickly without swift repossession. Judicial decisions from

comparative jurisdictions illustrate these principles in practice. In *Re Atlantic Computer Systems Plc* [1992] Ch 505 (CA), the English Court of Appeal held that equipment lessors could not repossess leased assets during administration without leave of the court, emphasizing the need to balance proprietary rights with collective insolvency interests. Similarly, in *Clough Mill Ltd v Martin* [1985] 1 WLR 111, the court recognized the validity of retention-of-title clauses but limited their reach where goods had been transformed or mixed, underscoring the importance of legal certainty and proper classification of security interests. In Uganda, these UNCITRAL principles are reflected in the Security Interest in Movable Property Act, which introduces a central registry and modern perfection rules, though leasing-specific insolvency protections remain underdeveloped. Full alignment with the UNCITRAL framework would therefore strengthen Uganda’s credit infrastructure, enhance predictability, and expand access to asset-based financing, particularly for SMEs.

3.2 Domestic Instruments

Uganda’s domestic legal framework for leasing is scattered across various laws rather than being consolidated in a dedicated leasing statute. The primary instruments include:

3.2.1 The Constitution of the Republic of Uganda

The Constitution of the Republic of Uganda, 1995 serves as the supreme legal foundation for all property-related transactions, including lease financing. Article 26(1) guarantees that “every person has a right to own property either individually or in association with others,” while Article 26(2) protects against arbitrary deprivation of property except where it is necessary for public use and accompanied by “prompt payment of fair and adequate compensation.” These provisions establish constitutional safeguards for proprietary interests, ensuring that both lessors and lessees operate within a legally protected environment in which ownership and contractual rights are enforceable. In the context of leasing, Article 26 reinforces legal certainty by protecting leased assets from unlawful interference and by requiring due process where state action affects property rights (Faida, 2019).

Ugandan jurisprudence has consistently affirmed the centrality of Article 26 in protecting property rights. In *Uganda National Roads Authority v Irumba Asumani & Peter Magelah* (Constitutional Appeal No. 2 of 2014), the Supreme Court held that compulsory acquisition of land without prior compensation violated Article 26(2), emphasizing that “prompt payment of fair and adequate compensation” is a mandatory constitutional requirement that cannot be bypassed even in the public interest. Similarly, in *Kampala City Council v Nakibuuka* (Civil Appeal No. 47 of 2011), the Court of Appeal found that the eviction of a market vendor without due process or compensation amounted to an unlawful deprivation of property contrary to Article 26. These decisions underscore

⁴ The UNCITRAL Legislative Guide on Secured Transactions (2007)

that any interference with property interests, including leased property or leasehold rights, must comply strictly with constitutional safeguards of legality, due process, and compensation.

3.2.2 The Financial Institutions Act,⁵

The Financial Institutions Act constitutes the principal statutory framework governing financial institutions in Uganda and provides the legal basis for their involvement in lease financing as a form of asset-based lending. Although it does not establish a standalone leasing regime, it integrates leasing into regulated financial services under the supervision of the Bank of Uganda. Section 2(b)(ii) expressly recognises “lease-based financing, including al-ijarah, al-ijarah muntahia bi al-tamlik and al-ijarah thumma al-bai,” thereby legitimising both conventional and Islamic leasing structures within the financial system. This inclusion is significant because it broadens the scope of regulated credit services while promoting financial inclusion through diverse leasing models (Financial Institutions Act, 2004). Schedule 2 further reinforces this position by authorising financial institutions, including Islamic banks and finance houses, to provide operating leases and lease-purchase arrangements, thereby institutionalising leasing as a recognised financial product.

The Act also regulates the property-related activities of financial institutions in ways that directly shape leasing operations. Section 37(1) restricts financial institutions from acquiring immovable property beyond limits necessary for business operations, but section 37(3)(b) creates an important exception allowing acquisition of property “as part of a business involving the purchase or acquisition of such property for immediate lease or resale,” subject to Bank of Uganda approval. This provision effectively validates leasing as a business model while maintaining prudential safeguards. In addition, section 89(2)(i) empowers the central bank to cancel leases entered into by a financial institution under statutory management, highlighting the primacy of regulatory intervention in financial distress situations. In *Stanbic Bank Uganda Ltd v Nakiguli & 2 Others* (HCCS No. 467 of 2015), the High Court upheld the enforceability of registered securities and affirmed that parties are bound by duly executed financial agreements, reinforcing legal certainty in asset-backed transactions. Similarly, in *DFCU Bank Ltd v Mugenyi & Co Advocates* (Civil Appeal No. 8 of 2004), the Court of Appeal recognised professional negligence in defective security documentation, underscoring the importance of due diligence in securing enforceable financial interests. Collectively, these statutory and judicial developments align Uganda’s leasing framework with international standards such as the UNCITRAL Legislative Guide on Secured Transactions and the World Bank Principles on Insolvency, which emphasise creditor protection, legal predictability, and efficient enforcement in asset-based financing systems.

3.2.3 The Income Tax Act,⁶

The Income Tax Act plays a central role in defining the fiscal treatment of leasing transactions and in distinguishing between operating leases and finance leases for tax purposes. Section 2 defines “rental income” as “the total amount of rent derived... from the lease of immovable property in Uganda,” less allowable deductions, thereby reflecting the traditional treatment of operating leases as income-generating arrangements based on ownership and possession of property (Income Tax Act, Cap 340). Under this approach, the lessor is taxed on net rental income, reinforcing the conventional landlord–tenant character of operating leases. This framework is particularly relevant to immovable property leasing, where the lessor retains legal title and derives periodic rental returns.

In contrast, section 58 introduces a functional recharacterisation of finance leases by treating them as financing transactions rather than pure leases. It provides that “the lessee is treated as the owner of the property” and “the lessor is treated as having made a loan to the lessee” (Income Tax Act, s 58(1)). Consequently, lease payments are divided into principal and interest components, with “the interest component... treated as interest expense incurred by the lessee and interest income derived by the lessor” (s 58(2)). Section 58(3) further sets objective criteria for classification, including lease duration exceeding 75% of the asset’s useful life, purchase options at nominal value, or residual value below 20% of market value. In *Commissioner Domestic Taxes v Roofings Ltd* (Tax Appeal No. 19 of 2012), the court emphasised substance over form in tax characterization, reinforcing the principle that transactions should be taxed according to their economic reality rather than contractual labels. Collectively, these provisions align Uganda’s tax treatment of leasing with international best practices reflected in instruments such as the UNCITRAL Legislative Guide on Secured Transactions, promoting neutrality between leasing and borrowing while enhancing predictability, compliance, and the development of asset-based financing markets.

3.2.4 The Companies Act,⁷

The Companies Act provides the corporate legal architecture within which leasing entities in Uganda are created, operate, and enforce their rights, even though it does not regulate leasing as a distinct financial product. Its cornerstone is the doctrine of separate legal personality under section 15(2), which establishes a company as “a body corporate... capable of exercising all the functions of an incorporated company,” thereby enabling leasing firms to own assets, enter contracts, and sue or be sued independently of their shareholders. This corporate autonomy is reinforced by section 33(2), which provides that contracts made on behalf of a company “shall bind the company and its successors,” ensuring the enforceability of lease agreements entered into by authorised officers. Courts have consistently affirmed this

⁵ The Financial Institutions Act, Cap 57

⁶ Chapter 338

⁷ The Companies Act, Cap 106

corporate capacity in financing contexts, emphasizing that properly constituted companies are bound by their contractual undertakings, as reflected in decisions such as *Mungyereza Holdings Ltd v Uganda Development Bank* and *KCB Bank Uganda Ltd v Uganda Development Corporation*, which reinforce the legal validity of corporate financing and governance obligations in commercial transactions (Faida, 2019).

A critical dimension of the Act's relevance to leasing lies in its regulation of corporate borrowing and secured transactions through the system of charges. Section 96(1) renders unregistered charges void against liquidators and creditors unless registered within forty-two days, thereby embedding transparency and priority rules that are essential to asset-based financing, including finance leases that functionally resemble secured credit. The requirement under section 105(1) for companies to maintain a register of charges further strengthens disclosure and due diligence, aligning Uganda's corporate framework with international standards such as those promoted in the UNCITRAL Legislative Guide on Secured Transactions. These provisions collectively reduce information asymmetry and enhance creditor protection by ensuring that interests in corporate assets are publicly ascertainable. In insolvency contexts, section 95(1) also establishes statutory priorities for preferential creditors, shaping the risk profile of leasing and secured lending arrangements.

Overall, the Companies Act indirectly supports the development of lease financing by providing a stable corporate governance and enforcement environment in which leasing companies can function effectively. By ensuring legal personality, contractual enforceability, structured disclosure of charges, and predictable insolvency rules, the Act reduces transaction risk and enhances investor confidence in corporate leasing arrangements. However, while the framework is robust in general corporate terms, it remains largely indirect in addressing the specific legal complexities of modern leasing, thereby necessitating complementary sectoral and financial regulations to fully support a sophisticated leasing market in Uganda

3.2.5 The Insolvency Act,⁸

The Insolvency Act is a central component of Uganda's commercial law framework with direct implications for lease financing, particularly because leasing arrangements often function as asset-backed credit exposed to insolvency risk. The Act adopts a functional approach by recognizing a "secured creditor" as one holding "a charge over property" and defining a "security interest" to include a "lease," thereby extending statutory protection to lessors within insolvency proceedings (Insolvency Act, s 1). This classification is significant because it elevates certain leasing arrangements—especially finance leases—into the category of secured transactions, aligning domestic law with international best practices that prioritize

substance over form. However, once insolvency proceedings commence, individual enforcement actions are curtailed through statutory mechanisms triggered by inability to pay debts and failure to comply with a statutory demand under sections 2 and 3, which collectively shift dispute resolution into a supervised collective process aimed at protecting the integrity of the debtor's estate.

Despite the procedural constraints introduced by insolvency commencement, the Act preserves the substantive rights of lessors as secured creditors. Section 10(2) permits a secured creditor to "realise any asset subject to a charge," or alternatively to claim as secured or unsecured depending on strategic preference, while section 10(3) ensures equitable balancing by requiring surplus realization to be returned to the estate and allowing unsecured claims for any deficiency. These provisions are complemented by procedural safeguards such as mandatory disclosure of secured claims to the liquidator under section 10(1), valuation rules fixing claims at the commencement of liquidation under section 5(1), and the suspension of post-commencement interest under section 5(2), all of which promote transparency and parity among creditors. The Act further strengthens fairness through the doctrine of set-off under section 8(1), which requires mutual obligations to be netted, while limiting opportunistic claims where insolvency was foreseeable. Judicial interpretation reinforces these principles, with courts emphasizing that repossession or enforcement during insolvency must comply with statutory procedures, as illustrated in *Centenary Rural Development Bank Ltd v Kakooza* and *DFCU Bank Ltd v Kyazze*, which underscore due process and collective creditor protection.

Overall, the Insolvency Act strikes a delicate balance between creditor protection and equitable estate administration, thereby shaping the risk allocation structure of lease financing in Uganda. While it imposes procedural limitations on immediate repossession of leased assets, it simultaneously affirms the priority status of lessors and provides structured mechanisms for asset realization and debt recovery, including court-supervised sale powers under section 20 and the doctrine of corporate veil lifting under section 1 where fraud or abuse is established. This framework aligns with international insolvency standards promoted by the World Bank Principles and UNCITRAL recommendations, which emphasize predictability, efficient enforcement, and protection of secured credit to support market stability. In this way, the Insolvency Act both constrains and safeguards leasing transactions, ultimately reinforcing legal certainty while ensuring that lease financing remains a viable and structured form of asset-based credit within Uganda's insolvency regime.

⁸ The Insolvency Act, cap 108

3.2.6 The Security Interest in Movable Property Act, 2019,⁹

The Security Interest in Movable Property Act, 2019 represents a major shift in Uganda's secured transactions regime by adopting a functional approach that expressly integrates leasing—particularly financial leasing into the legal framework for secured credit. Under section 2, a “financial lease” is defined as a lease in which ownership is effectively transferred to the lessee either automatically, upon payment of a nominal price, or where the asset has only a nominal residual value, thereby capturing the economic substance of leasing as deferred acquisition rather than mere hiring. The Act further defines a “debtor” to include “a lessee under a lease” and expressly includes a “lease” within the meaning of a “security interest,” thereby bringing leasing squarely within the secured transactions system (Security Interest in Movable Property Act, 2019, s 2). Its broad application under section 3, which covers transactions securing obligations “without regard to the form or ownership of movable property” and extends to leases exceeding one year, reflects a deliberate move towards legal uniformity and alignment with international standards such as the UNCITRAL Legislative Guide on Secured Transactions.

A key innovation of the Act lies in its creation, perfection, and priority framework, which directly determines the legal effectiveness of leasing arrangements against third parties. Section 4 establishes that a security interest arises from any transaction securing an obligation and becomes enforceable only where key requirements such as a signed agreement, description of collateral, and identification of obligations are met, while expressly clarifying that such interests “shall not operate as a transfer of an interest in property” (s 4(5)). The Act further emphasizes registration as the cornerstone of perfection, providing under section 39(2) that an unperfected security interest may be defeated by a purchaser, lessee, or liquidator who takes the asset free of such interest. Priority rules under section 41, which elevate “acquisition security interests,” are particularly significant for leasing because they secure the lessor's interest in financed assets. Judicial interpretation has reinforced the centrality of registration, as seen in *Finance Trust Bank Ltd v Mukasa*, where the court stressed that failure to perfect an interest through registration undermines priority rights, even where substantive entitlement exists.

The enforcement regime under Part VI further strengthens the attractiveness of leasing by enabling efficient realization of collateral upon default while balancing debtor protection. Section 44 provides that upon default, “the security interest becomes enforceable,” allowing creditors to exercise remedies under the Act or the security agreement, subject to notice requirements under section 44(3). Notably, section 46(4) permits non-judicial enforcement in certain cases, allowing

secured creditors to act “without an order of court,” thereby reducing delays and transaction costs associated with repossession. This efficiency-oriented framework significantly enhances the viability of leasing as a financing tool, particularly for SMEs and capital-intensive investments. Overall, the Act modernizes Uganda's leasing landscape by strengthening creditor protection, prioritizing registration-based certainty, and enabling swift enforcement, while aligning domestic law with global secured transactions standards that emphasize predictability, transparency, and credit expansion.

4. INSTITUTIONAL FRAMEWORK

International Institutions

International institutions play a central role in shaping the global legal and policy architecture of lease financing by promoting harmonisation, legal certainty, and access to finance across jurisdictions. The International Institute for the Unification of Private Law (UNIDROIT) is particularly influential through the UNIDROIT Convention on International Financial Leasing, which establishes uniform rules on the rights and obligations of parties, strengthens lessor protection, and reduces legal uncertainty in cross-border leasing transactions, especially in cases of insolvency or enforcement conflicts (UNIDROIT, 1988). Similarly, the United Nations Commission on International Trade Law (UNCITRAL) advances a functional approach to secured transactions through its Legislative Guide on Secured Transactions, which encourages states to treat leasing as a form of asset-based financing and adopt predictable, registration-based systems that enhance creditor confidence and financial inclusion (UNCITRAL, 2007). These frameworks collectively promote convergence of domestic legal systems towards internationally accepted standards.

Development-oriented institutions such as the World Bank and the International Finance Corporation (IFC) further reinforce leasing reform through technical assistance, policy guidance, and legal diagnostics aimed at removing barriers to asset-based financing in emerging markets. In Uganda, IFC interventions have supported reforms in secured transactions and registration systems to improve SME access to finance, emphasizing enforceable ownership rights, simplified collateral registration, and tax efficiency (World Bank, 2017; Bilkhu, 2021). At the regional level, the African Legal Support Facility (ALSF) strengthens legal capacity in structuring complex leasing and infrastructure finance contracts, while the East African Community (EAC) promotes harmonisation of commercial laws and cross-border leasing under the Common Market Protocol to facilitate regional investment and trade (Muumbi, 2014). Collectively, these institutions function as catalysts for domestic legal reform by enhancing creditor protection, reducing transaction costs, and aligning national

⁹ The Uganda Registration Services Bureau (URSB) (Security Interest in Movable Property) Registry System Regulations, 2019

frameworks with global best practices, thereby strengthening the overall leasing ecosystem.

4.2 Domestic Institutions

In Uganda, several domestic institutions play critical roles in regulating and supporting leasing activities to ensure financial stability and economic growth; Domestic institutions in Uganda collectively form a multi-layered regulatory and developmental framework that supports lease financing through supervision, advocacy, registration, policy coordination, and taxation. The Bank of Uganda plays a central regulatory role under the Financial Institutions Act, supervising banks and credit institutions engaged in leasing, issuing prudential guidelines on capital adequacy, risk management, and lease receivables provisioning to ensure financial stability and consumer protection (IMF, 2017; World Bank, 2018). Judicial recognition of this mandate, as seen in *Uganda Leasing and Finance Company Ltd v Bank of Uganda*, reinforces its authority in maintaining market integrity. The Uganda Leasing Association complements this regulatory environment by advocating for legal reforms, building professional capacity, and fostering industry standards, particularly in a context where leasing remains underdeveloped and largely contract-based, thereby bridging gaps between regulators, financiers, and SMEs.

The Uganda Registration Services Bureau provides the legal infrastructure for secured transactions through the Security Interest in Movable Property Registry, which enhances transparency, priority determination, and enforceability of security interests in movable assets. This system strengthens creditor protection and aligns Uganda with international best practices promoted by UNCITRAL and the World Bank, although challenges persist in integrating leasing interests and resolving ownership-versus-possession complexities, as illustrated in *Finance Trust Bank Ltd v Mukasa*. The Ministry of Finance, Planning and Economic Development plays a strategic policy role by integrating leasing into national development frameworks such as the NDP, coordinating reforms across institutions, and engaging development partners like the World Bank and IFC to promote financial inclusion and SME access to credit (MoFPED, 2020).

The Uganda Revenue Authority regulates the fiscal dimension of leasing through VAT, depreciation allowances, and income tax rules that directly influence the affordability and attractiveness of lease financing. By ensuring consistent tax treatment and providing interpretive guidance, URA enhances predictability, reduces compliance uncertainty, and promotes a level playing field for leasing companies, thereby supporting investment and competition in the sector. Collectively, these institutions create an enabling but still evolving ecosystem for lease financing in Uganda, where

regulatory progress is evident, yet coordination gaps, legal ambiguities, and implementation challenges continue to affect efficiency and full market development.¹⁰

5. THE EFFECTIVENESS OF THE LEGAL AND INSTITUTIONAL FRAMEWORK

Uganda has indeed made notable strides in modernizing its secured transactions framework, particularly with the enactment of the Security Interest in Movable Property Act (SIMPACT), which introduced a modern, electronic registry for security interests over movable assets. This reform was aimed at expanding access to credit by enabling lenders to perfect interests in movable property, thus reducing reliance on land as collateral and supporting asset-based financing such as leasing. (Faida, 2019) However, despite these advancements, the legal framework governing leasing remains fragmented and lacks doctrinal clarity, which poses significant challenges to the sector's growth.

A critical issue is the absence of a comprehensive, stand-alone leasing statute in Uganda. Instead, leasing arrangements are regulated piecemeal through various laws, including the Hire Purchase Act, the Financial Institutions Act, and general commercial law principles. This patchwork approach creates doctrinal confusion, particularly in distinguishing leasing from hire purchase transactions. While leasing grants the lessee the right to use an asset for a fixed term without transferring ownership, hire purchase often entails a pathway to ownership through installment payments. Courts and financial institutions frequently grapple with this distinction, leading to inconsistent interpretations and enforcement challenges. (Kraemer-Eis, 2012)

Such legal ambiguity undermines investor confidence because lessors and financiers face uncertainties regarding their rights and remedies in case of default, repossession, or insolvency of the lessee. For example, the overlap between leasing and hire purchase can complicate the registration of interests under SIMPA, affect priority disputes, and hinder effective enforcement of security interests. In *Finance Trust Bank Ltd v Mukasa*,¹¹ the court dealt with conflicts arising from competing claims over movable assets used in leasing, highlighting the practical difficulties caused by unclear statutory provisions.

Furthermore, this doctrinal fragmentation stifles innovation in financial products and limits the ability of financial institutions to design leasing arrangements that suit the needs of SMEs, which are often the primary beneficiaries of lease financing. (Churyk, Natalie Tatiana, 2015) Without clear legal parameters, institutions may avoid leasing due to perceived high transaction costs and legal risks, thereby

¹⁰ Hickey, S. The politics of taxation in Uganda: The role of Uganda Revenue Authority (ESID Working Paper No. 174). Effective States and Inclusive Development Research Centre, (2023). University of Manchester. Retrieved from

https://www.effective-states.org/wp-content/uploads/esid_wp_174_hickey.pdf

¹¹ [2020] UGHC 132

restricting the development of a vibrant leasing market crucial for economic growth and financial inclusion. While Uganda has laid important legal groundwork for asset-based financing through secured transactions reforms, the lack of a unified and clear leasing law continues to hamper the sector. Addressing these doctrinal gaps through comprehensive legislation or regulatory guidelines is essential to bolster investor confidence, enhance legal certainty, and promote the growth of leasing as a viable financing mechanism.

Institutional support for lease financing in Uganda, while improving, remains uneven and presents significant challenges that hinder the sector's growth. The Uganda Registration Services Bureau (URSB) has made important contributions by operationalizing the Security Interest in Movable Property Act (SIMPA), through establishing an electronic registry for security interests in movable assets.¹² This development has enhanced transparency and legal certainty for financiers and lessors by providing a public record of security interests, which is critical for protecting rights and resolving disputes in lease financing. However, despite these gains, the broader institutional ecosystem lacks sufficient capacity and outreach, particularly among small and medium-sized enterprises (SMEs) and legal practitioners.

One major concern is the limited public awareness and understanding of lease financing mechanisms and related legal processes among SMEs, which form the backbone of Uganda's economy and a key target group for leasing products. (International Finance Corporation (IFC), 2015) Many SMEs lack the technical expertise to effectively negotiate, interpret, and manage lease agreements, increasing their vulnerability to unfavorable terms and potential disputes. Similarly, legal practitioners often have limited specialized knowledge in leasing law, given the absence of clear legislative guidance and the relative novelty of lease financing as a mainstream financial product in Uganda. (Muumbi, 2014) This knowledge gap impedes the effective drafting, enforcement, and litigation of lease contracts, contributing to increased legal risks and transactional inefficiencies.

Judicial engagement with lease financing matters also remains limited. There is a scarcity of precedent and jurisprudence specifically addressing leasing disputes, resulting in inconsistent interpretations and uncertainty among market participants. (Kraemer-Eis, 2012) Courts often apply general contract and property law principles, which may not fully capture the commercial and financial complexities inherent in leasing arrangements. This situation underscores the need for judicial capacity building and the development of specialized dispute resolution mechanisms, such as commercial arbitration panels or leasing tribunals, that possess the requisite expertise to handle leasing-related conflicts efficiently and fairly.

Specialized dispute resolution would not only expedite conflict resolution but also foster investor confidence by

providing predictable outcomes and protecting the interests of all parties involved. International experiences demonstrate that clear, expert adjudication frameworks significantly enhance leasing markets' stability and growth potential. (UNIDROIT Model Law on Leasing, 2008) Therefore, strengthening institutional support in Uganda through awareness campaigns, capacity building for SMEs and legal professionals, and establishing specialized judicial or quasi-judicial bodies is imperative to fully realize the benefits of lease financing.

while institutional structures like the URSB have laid important groundwork, the lack of widespread awareness, technical capacity, and specialized dispute resolution continues to constrain lease financing in Uganda. Addressing these gaps will enhance legal certainty, reduce transaction costs, and promote a more dynamic leasing market. The current framework only partially supports the growth of leasing as a credible and accessible form of finance. Harmonization of laws, judicial training, and the development of a comprehensive leasing statute could significantly improve the enabling environment. (Muumbi, 2014) There is also a pressing need for regulatory clarity and stronger enforcement to ensure that leasing can effectively contribute to financial inclusion and private sector development.

Conclusion

Uganda's lease financing framework is shaped by both international instruments and domestic institutions, working together to promote access to equipment financing and economic growth. Internationally, conventions such as the UNIDROIT Convention on International Financial Leasing (1988) provide harmonized principles that guide cross-border leasing and influence Uganda's alignment with global standards. Together, these international and domestic frameworks create a coherent system that strengthens Uganda's leasing industry, enhances financial inclusion, and positions leasing as a strategic tool for industrialization, agricultural modernization, and regional economic integration

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