

The Legal and Institutional Framework Governing Lease Financing in Uganda: Challenges and prospects

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Abstract: *This study examines the legal and institutional framework governing lease financing in Uganda and evaluates its effectiveness in promoting access to finance, legal certainty, and financial sector development. Using a doctrinal legal research approach, it analyses key statutes, regulations, case law, scholarly works, and international instruments such as the UNCITRAL Legislative Guide on Secured Transactions, alongside domestic laws including the Financial Institutions Act, Insolvency Act, and Security Interest in Movable Property Act. The study finds that Uganda has made progress in strengthening its secured transactions regime, including the establishment of an electronic collateral registry and recognition of leasing within the financial system. However, the framework remains fragmented, with no comprehensive leasing law and persistent inconsistencies in classification, registration, enforcement, and insolvency treatment of leases. These gaps, together with limited institutional capacity and low awareness, undermine legal certainty and restrict market growth, particularly for SMEs. The study concludes that legal reforms especially the enactment of a dedicated leasing law, harmonization of existing legislation, and enhanced institutional capacity are necessary to improve effectiveness and support financial inclusion and economic development.*

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 harmonizing cross-border transactions. At the domestic level, the article analyses Uganda's constitutional, statutory, and regulatory architecture, including the Financial Institutions Act and the Security Interest in Movable Property Act, 2019, as well as the role of key institutions such as the Bank of Uganda and the Uganda Registration Services Bureau. 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. INTERNATIONAL LEGAL FRAMEWORK

The international legal framework governing lease financing is primarily shaped by the UNIDROIT Convention on International Financial Leasing and the Cape Town Convention on International Interests in Mobile Equipment. The UNIDROIT Convention promotes harmonisation of cross-border leasing transactions by emphasizing party autonomy and contractual certainty. Article 5(1) provides that the rights and obligations of parties are governed by the lease agreement and the Convention, while Articles 8(1) and 8(2) limit the lessor's liability where the lessee selects the supplier. The Convention further strengthens enforcement through

Article 13, which permits termination, repossession, and recovery of damages upon default. These principles have been judicially reinforced in *United Technologies v MTL Leasing and Blue Sky One Ltd v Mahan Air*, where courts upheld freely negotiated contractual terms and the enforceability of leasing rights. Similarly, the Cape Town Convention creates a unified framework for leasing and secured financing of high-value mobile equipment by recognizing an “international interest” under Article 2(1), establishing an international registry under Article 19(1), and providing priority rules under Article 29(1). Articles 8 and 13 further facilitate repossession and speedy relief upon default, thereby reducing legal uncertainty and enhancing creditor confidence (Osiecki, 2016; Kraemer-Eis & Lang, 2012). Judicial decisions such as *Blue Sky One Ltd v Mahan Air* and *Wells Fargo Bank Northwest NA v Administrator of Civil Aviation Authority of Nigeria* have affirmed the Convention’s emphasis on predictability, enforceability, and protection of lessor rights.

Complementing these treaties are influential soft-law instruments, notably the World Bank Principles for Effective Insolvency and Creditor/Debtor Regimes and the UNCITRAL Legislative Guide on Secured Transactions. Although they do not regulate leasing directly, both promote clear creditor rights, efficient enforcement, and predictable insolvency systems. The World Bank Principles emphasize that enforcement mechanisms should be clear, prompt, inexpensive, and predictable, while protecting secured creditors against the erosion of collateral value during insolvency (World Bank, 2015). Likewise, the UNCITRAL Guide adopts a functional approach that focuses on the economic substance of transactions, recommends centralized registration systems, and supports commercially reasonable enforcement of security rights. These measures reduce information asymmetry, enhance creditor protection, and lower transaction costs, thereby facilitating asset-based financing and leasing markets (Bilkhu, 2021). Comparative case law, including *Re Atlantic Computer Systems Plc [1992] Ch 505 (CA)* and *Clough Mill Ltd v Martin [1985] 1 WLR 111*, illustrates the balance between creditor rights and insolvency objectives. In Uganda, aspects of these principles have been incorporated through the Security Interest in Movable Property Act, although leasing-specific insolvency protections remain limited, indicating the need for further legal reform to strengthen access to finance and leasing opportunities, particularly for SMEs.

3.1 DOMESTIC FRAMEWORK

Uganda’s legal framework for lease financing is dispersed across several statutes rather than contained in a dedicated leasing law. At its constitutional foundation, Article 26 of the *Constitution of the Republic of Uganda, 1995* guarantees the right to own property and protects against arbitrary deprivation without prompt and adequate compensation, thereby safeguarding the proprietary interests of both lessors and lessees. Judicial decisions such as *Uganda National Roads Authority v Irumba Asumani & Peter Magelah* and *Kampala City Council v Nakibuuka* affirm that any interference with

property rights must comply with due process and constitutional guarantees. Leasing activities are further recognised under the *Financial Institutions Act*, which expressly permits lease-based financing, including Islamic leasing models, while the *Income Tax Act* distinguishes between operating leases and finance leases by treating the latter as financing transactions in which the lessee is deemed the owner and the lessor a lender. The *Companies Act* complements this framework by providing corporate personality, contractual capacity, and registration requirements for charges, thereby enhancing transparency and creditor protection in leasing transactions.

The *Insolvency Act* and the *Security Interest in Movable Property Act, 2019* provide the most direct statutory support for lease financing. The Insolvency Act recognizes leases as security interests and accords lessors the status of secured creditors, allowing them to realize charged assets while balancing their rights against the collective interests of creditors during insolvency proceedings. Judicial decisions such as *Centenary Rural Development Bank Ltd v Kakooza* and *DFCU Bank Ltd v Kyazze* emphasize compliance with statutory procedures when enforcing rights against insolvent debtors. The Security Interest in Movable Property Act modernizes Uganda’s leasing regime by adopting a functional approach that treats financial leases as secured transactions, requiring registration for perfection and establishing clear priority and enforcement rules. Sections 39 and 41 emphasize registration-based protection, while sections 44 and 46 permit efficient enforcement, including certain non-judicial remedies upon default. Together, these statutes align Uganda’s leasing framework with international standards promoted by UNCITRAL and the World Bank by enhancing legal certainty, creditor protection, transparency, and access to asset-based financing.

3.2 International Institutions

International institutions play a central role in shaping the global legal and policy architecture of lease financing by promoting harmonization, 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 harmonization 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 frameworks with global best practices, thereby strengthening the overall leasing ecosystem.

3.3 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. (Hickey, 2023)

4. CHALLENGES AND PROSPECTS OF LEASE FINANCING IN UGANDA

Uganda has made significant progress in modernizing its secured transactions regime through the enactment of the *Security Interest in Movable Property Act (SIMPA), 2019*, which introduced an electronic collateral registry and expanded the use of movable assets as security for credit. This reform has enhanced access to asset-based financing and reduced dependence on land as collateral, thereby creating a favorable environment for lease financing (Faida, 2019). Nevertheless, the leasing sector continues to face substantial legal and institutional challenges. Foremost among these is the absence of a comprehensive leasing statute. Leasing transactions are currently regulated through a fragmented framework comprising the Financial Institutions Act, the Hire Purchase Act, the Income Tax Act, the Companies Act, and general principles of contract and commercial law. This fragmented approach creates uncertainty regarding the legal characterization of leasing arrangements, particularly the distinction between finance leases and hire-purchase agreements. Such ambiguity complicates the registration, perfection, and enforcement of interests, leading to priority disputes and inconsistent judicial interpretation, as illustrated in *Finance Trust Bank Ltd v Mukasa*. The resulting uncertainty increases transaction costs, discourages investment, and limits the willingness of financial institutions to develop innovative leasing products, especially for small and medium enterprises (SMEs) (Kraemer-Eis & Lang, 2012; Churyk, 2015).

Institutional weaknesses further constrain the development of the leasing market. Although the Uganda Registration Services Bureau (URSB) has strengthened the legal infrastructure through the movable property registry, awareness and technical understanding of lease financing remain limited among SMEs, legal practitioners, and even some financial institutions (IFC, 2015). The lack of specialized expertise often results in poorly structured agreements, ineffective enforcement, and increased legal risk. In addition, judicial engagement with leasing disputes remains limited, resulting in a scarcity of leasing-specific jurisprudence and a

continued reliance on general contract and property law principles that do not adequately address the commercial realities of modern leasing transactions (Muumbi, 2014). The absence of specialized dispute-resolution mechanisms further exacerbates delays and unpredictability in the enforcement of rights and obligations.

Despite these challenges, the prospects for lease financing in Uganda remain promising. The existence of a modern secured-transactions framework, growing demand for alternative financing by SMEs, increasing financial-sector innovation, and ongoing efforts to promote financial inclusion provide a strong foundation for future growth. The enactment of a dedicated leasing statute would significantly enhance legal certainty by clarifying the rights and obligations of lessors and lessees, harmonizing existing laws, and establishing clear rules on registration, priority, repossession, and insolvency. Complementary reforms such as judicial training, public awareness campaigns, professional capacity building, and the establishment of specialised commercial dispute-resolution mechanisms would further strengthen investor confidence and reduce transaction costs. If these reforms are undertaken, leasing has the potential to become a major source of business financing in Uganda, contributing to private-sector development, increased access to capital, and broader economic growth (UNIDROIT Model Law on Leasing, 2008; Muumbi, 2014).

4.1 Policy Implications

The findings reveal a pressing need for Uganda to adopt a comprehensive leasing policy and enact a dedicated Leasing Act to provide a coherent legal framework for lease financing. The current reliance on scattered statutory provisions creates uncertainty regarding the classification, registration, enforcement, and insolvency treatment of leasing transactions. A unified legislative framework would harmonize existing laws, clearly distinguish leasing from hire-purchase arrangements, define the rights and obligations of parties, and establish predictable enforcement mechanisms. Such reform would align Uganda's legal framework with international best practices reflected in the UNIDROIT Convention on International Financial Leasing, the Cape Town Convention, and the UNCITRAL Legislative Guide on Secured Transactions. Greater legal certainty would enhance investor confidence, attract foreign capital, and stimulate the growth of asset-based financing, particularly for SMEs that often lack traditional collateral.

The study further underscores the importance of strengthening institutional capacity and regulatory oversight. Policymakers should prioritize awareness campaigns, financial literacy programs, and professional training for judges, lawyers, financial institutions, and SMEs on the operation and benefits of leasing. The Uganda Registration Services Bureau (URSB), Bank of Uganda, and other regulatory agencies should develop clear guidelines on the registration and enforcement of leasing interests under the Security Interest in Movable Property Act. Consideration

should also be given to establishing specialized commercial courts, leasing tribunals, or alternative dispute resolution mechanisms with expertise in leasing and secured transactions. Enhanced institutional capacity would improve consistency in legal interpretation, reduce transaction costs, and facilitate efficient dispute resolution.

From an economic policy perspective, leasing should be integrated into Uganda's broader financial inclusion and private-sector development strategies. Government can promote leasing through targeted tax incentives, accelerated depreciation allowances, reduced transaction costs, and supportive regulatory measures aimed at encouraging financial institutions to expand leasing portfolios. Particular emphasis should be placed on facilitating access to leasing SMEs, agricultural enterprises, and start-up businesses that face significant barriers to conventional credit. By creating an enabling policy environment, Uganda can leverage leasing as a tool for capital formation, technological modernization, employment creation, and sustainable economic growth.

Finally, the findings suggest the need for continued harmonization of Uganda's commercial laws with international standards governing secured transactions, insolvency, and asset-based financing. Consideration should be given to accession to relevant international instruments, particularly the Cape Town Convention and its Protocols, to enhance cross-border leasing opportunities and improve access to international finance. Such reforms would strengthen Uganda's competitiveness as an investment destination while fostering a more efficient, predictable, and inclusive leasing market capable of supporting long-term economic development.

4.2 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.

5. ACKNOWLEDGMENT

We sincerely acknowledge Kampala International University for its support and guidance throughout the completion of this work.

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