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The Stamp Duty (Amendment) Act of 2022 will lower the cost of borrowing where movable property is pledged as collateral

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According to the New Vision newspaper Labour Day Supplement, the Covid-19 pandemic hit Uganda's economy hard causing levels of unemployment to rise significantly with 57% of firms decreasing employment, 1 in every 4 youths losing their jobs while other employers reduced salaries by close to 37% in both the agriculture and service sectors. Productivity levels among workers also dipped by 59.9% in the informal sector leading to a very sharp fall in household incomes.

The Government has deployed various interventions to accelerate economic recovery to pre-pandemic levels as demonstrated in the 2022/23 Budget. Access to finance stands out as a priority area as seen through the implementation of the Parish Development Model (PDM) with over 1.059 trillion budgeted for disbursement, lowering the cost of borrowing among other interventions.

Enhancing easier borrowing

One of the core ways of reducing the cost of borrowing is by reducing the risks and costs of lending. The Stamp Duty (Amendment) Act of 2022 has done this by reducing the stamp duty fee that was previously imposed on loans relating to chattels (cars, equipment, household furniture, livestock, and farm produce among others) as collateral from 1% to nil. It is pertinent to note that the Security Interest in Movable Property Act of 2019 which established the Security Interest in Movable Property Registry System (SIMPO) already laid a foundation for secure lending over movable properties by reducing risks associated with movable asset-based lending.

SIMPO is a purely electronic register run by the Uganda Registration Services Bureau (URSB), where lenders can notify the whole world of rights they obtain over various movable property pledged as collateral. We know that the only way to give a lender confidence to extend credit to any person is through creating a suitable environment for that loan to be easily enforceable in the event of default.

Securing credit costs

The Security Interest in Movable Property Act 2019 (SIMPA) apart from providing a platform where other lenders and the public know about one's interests in different movable properties pledged as collateral, has clear enforcement mechanisms that ensure that both the lender and the borrower's rights and obligations are protected at all times in the relationship. For example, given the nature of the collateral involved, one does not need a court order to enforce a loan secured with perishable collateral like farm produce or accounts receivables or deposit accounts or documents of title. This also goes for all loans below the monetary value of Uganda Shillings 10 million. The cost of registration for these security interests onto SIMPO is Eighteen Thousand Uganda Shillings (Ugx.18000) only.

Supporting affordable lending

With the amendment of items 6 and 56 of Schedule 2 to the Stamp Duty Act of 2014, stamp duty no longer has to be paid for these types loans. We all know these are costs that the lender transfers to the consumer who is the borrower. At the end of the day, where the costs of borrowing imposed on the borrower are high, it translates into little or no household income. This is why all these reforms are geared towards facilitating access to affordable credit for people who do not own land or buildings to pledge as collateral.

These strategic reforms that are creating an enabling environment for all Ugandans especially the MSMEs, youth, and women who ordinarily may not have access to immovable property (land/buildings). The particular reforms help the ordinary Ugandan to thrive through making full use of the value inherent in their movable assets to access affordable credit and eventually increase household income for every Ugandan in accordance with the goal of the National Development Plan III. With the amendment, movable asset-based lending is now making a lot of business sense that all financial market actors can take advantage of the resultant opportunities.

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