INAUGURAL BANKERS' CONFERENCE

2017

ANNUAL BANKERS CONFERENCE

THE FUTURE OF BANKING

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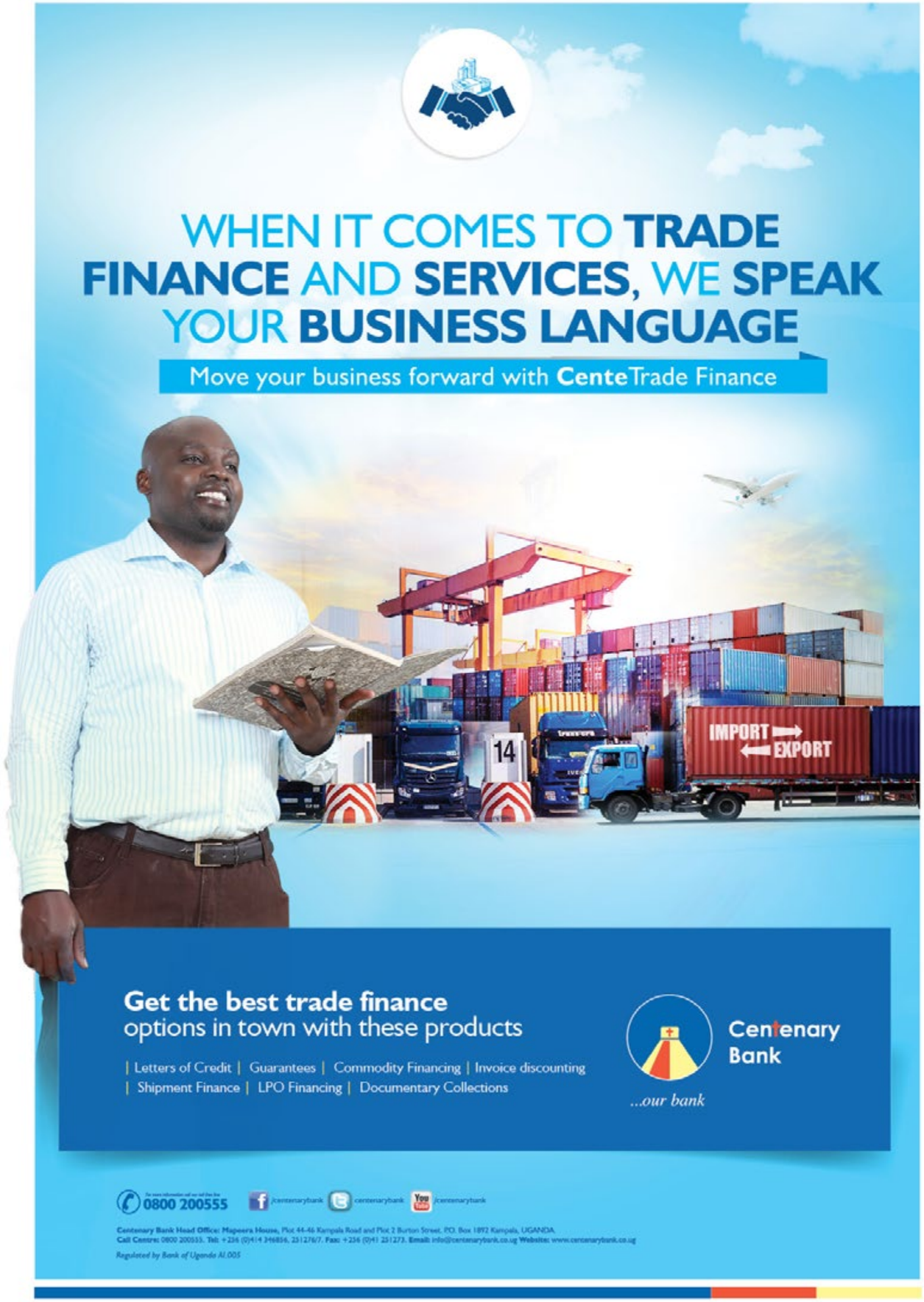

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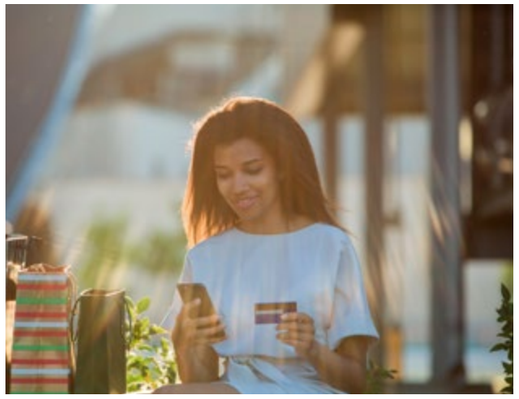

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Mulengi Group Simple, Street, Smart Solutions & Services

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01

ANNUAL BANKERS CONFERENCE

UGANDA BANKERS ASSOCIATION

ANNUAL BANKERS CONFERENCE 2017 PROGRAM

8.00 am	Registration Opens	
8.55 am	Welcome and setting the scene-	UBA Chairman
9.00 am	Remarks by BOU Governor	Governor
9.05am	Keynote address:	
	Remarks by Government	Prime Minister
10.00am	Coffee Break	Networking and Refreshments
10.45am	Panel Session 1: the Digital Finance Revolution: Trends & Insights for the Banking & Financial Sector	Moderator
12.00 noon	Panel Session 2: Addressing the gaps & Shortages of long term finance	Moderator
1.30pm	Lunch break	Networking and Refreshments
2.30pm	Panel Session 3: Financing of the Agriculture Value Chain: How can banks be encouraged to play big time in this sector?	Moderator
3.45pm	Panel Session 4: Responsible & Sustainable Banking.	Moderator
4.45pm	Tea Break	
5.00pm	Panel session 5: Regulatory Over-sight/Reforms: How is regulation and oversight supervision coping with fast paced changes happening in the banking & financial sector?	Moderator
6.00pm	Conference Wrap up and closing Speech by Finance Minister	
6.30pm	Evening Cocktail/Entertainment	

UGANDA BANKERS' ASSOCIATION

ANNUAL BANKERS CONFERENCE

19th JULY 2017

Kampala Serena Hotel

"THE FUTURE OF BANKING"

Uganda Bankers Association, an umbrella body of licensed commercial banks in Uganda has organised its first banking conference whose key objective will be to take stock of and gain insights from global, regional & country specific issues, trends & drivers in the banking & financial services sector and discuss the dynamics that are increasingly shaping sustainability strategies in banking & finance.

The Conference held on **19th July 2017 at Kampala Serena Hotel under the theme "The Future of Banking"**

This premier event has attracted participants including banking and non-bank financial sector executives, fin-techs, international development partners and multi-lateral agencies, investment advisors, regulators, research associates and academia, legal experts, legislators & policy makers, technocrats from governments and private sector players from key sectors like agriculture, energy, tourism, housing, education, health, and telecoms.

02

MINISTER OF FINANCE FOREWORD

HON. Matia Kasaija, Minister Of Finance, Planning & Economic Development

Harnessing strategic partnerships in the financial services sector is the way to go

I welcome all the participants to this inaugural banker's conference.
I would also like to commend Uganda Bankers' Association for organizing this forum because it is timely and appropriate to come together and take stock of the challenges arising from our current economic and financial situation to enable us define our path for the future.

The Government of Uganda has taken deliberate steps to build a more inclusive financial system that is responsive to the needs of the Ugandan people as stipulated in its Vision 2040.

During this vision period, Government has continued to focus on achieving the following goals;

- Continuing to strengthen legislative & regulatory mechanisms for efficient and fair functioning of the financial sector and compliance with anti-money laundering and anti-terrorism financing.
- Ensuring increased access to credit by putting in place measures to reduce the cost of doing business. These measures include: strengthening business and collateral registration, allowing more players to provide credit reference and rating bureau systems, individual identification via the national identity system, more oversight and supervision structures for the various tiers of financial institutions to minimize unfair play in the financial sector.
- Developing a framework to increase availability of long term development finance by implementing reforms in the pension sector.

- Promoting capital market development in the country by enhancing the capacity of institutions regulating and participating in activities of the sector.
- Deepening and broadening of the financial sector by promoting research in financial development.
- Widening the range of financial services including banc assurance and Islamic Banking among others.

To further support this Vision, the Central Bank of Uganda adopted a strategy for pushing forward the financial inclusion agenda based on specific pillars

1.Financial literacy:

This is aimed at ensuring consumers make informed financial and economic decisions that ultimately drive economic growth. The Strategy for financial literacy in Uganda recommends priority activities through five major channels namely; financial education in schools, financial literacy for youth, financial literacy and rural outreach and use of media for financial literacy.

2. Financial consumer protection:

Guidelines have been issued to all supervised financial institutions with the objectives of;

a.*Promoting equitable financial services practices,*

b.*Increasing transparency in order to inform and empower consumers of financial services,*

c.*Fostering confidence in the financial services sector,*

d. *Provision for efficient and effective mechanisms for handling consumer complaints related to the provision of financial products and services.*

3. Facilitated Legislation to provide for Agency Banking.

Through enabling regulation, financial services providers will be supported to take advantage of new technologies to increase access to financial services, while at the same time protecting the consumers. The priorities under here are currently mobile money and agent banking.

The above initiatives are in addition to the numerous economic policy reforms undertaken since 1987 to enable the country become more competitive like liberalization, strengthening of financial sector (by increasing capital requirements, strengthening bank supervision & oversight regulation, establishment of institutions like Capital Markets Authority, Uganda Securities Exchange among others.

We all need to support these important pillars and see them take root.

Challenges and gaps however still exist and it against this background that we meet at this conference to dialogue on how to sustain the improvement journey.

Although the sector has become more competitive in recent years, urban/rural economic disparity is still reflected in the financial services sector.

Financial Services are more concentrated in the capital city and major towns yet access to financial services that meets rural needs is vital for financial inclusion and economic development in low-income countries such as Uganda.

> Domestic revenues are projected to increase to about Shs. **15,062.4 billion,** which is a growth of **14.6 % ....**

Commercial bank lending rates have remained high, long term capital remains limited, the agriculture sector remains constrained in terms of financial options offered by the financial sector and our shilling has lately suffered depreciation making imports more expensive and constraining trade.

To this end, the need for us to work together as strategic partners is critical.

Developments in technology have recently transformed financial services delivery from the traditional physical infrastructure to a system supplemented by other innovative channels. By leveraging on ICT and growth in telephony, there is an opportunity to facilitate linkages between formal and informal sector through AGENT BANKING arrangements and through MOBILE MONEY FINANCIAL SERVICES, we can increase the supply of affordable financial services to rural and underserved communities, while cutting significant operational costs for financial service providers. I encourage banks and all other players to embrace this since the legal framework is now in place.

In regard to the cost of credit, Government will strive to address the underlying supply side rigidities while maintaining the liberal policy stance in line with the reforms I listed earlier on. To this end interest rates will continue to be determined by the market. Government will however ensure fiscal and monetary policies prevent a significant rise in interest rates that crowd the private sector and this will be complemented with strengthening consumer protection measures to address misconduct by some financial institutions.

High interest rates and non-performing loans in the banking industry that constrained private sector growth during 2016/17 are expected to moderate.

Government has provided additional funding of UGX 50 billion to the Uganda Development Bank Limited (UDBL) for capitalization in a bid to increase the availability of long term capital. This will bring the total capitalization of UDBL to Shs150 billion out of the targeted Shs500 billion. Additionally, Government recently guaranteed a USD 26 million loan (equivalent to Shs93 billion) from the Islamic Development Bank (IDB) for on lending.

This year's theme of the national Budget is 'Industrialization for Job Creation and Shared Prosperity.' To achieve this set goal, government will focus on agriculture, industrialization and tourism to move the country towards the medium term objective of becoming a middle income economy.

There is therefore optimism that the fiscal & monetary policy stance adopted for this year shall be supportive of faster growth compared to the previous year and that productivity in key primary sectors shall be enhanced.

The much needed effort to address the known project implementation challenges faced on large infrastructure projects like delays in procurement, difficulties in acquiring land and skills gaps and appropriate measures are being addressed and we should therefore expect to see a rebound in growth in 2017/18 and even much stronger growth in 2018/19. The Central Bank has similarly been signaling monetary easing through downward revisions of the Central Bank Rates and we expect to see this to be translated into a review of lending rates by banks.

Banking business from a lending perspective should hopefully expand in support of all the envisaged growth.

In conclusion, my forward is meant to stimulate debate and give guidance towards the critical areas that require attention.
I am optimistic that this conference will provide all of us with additional useful insights to enable us pool efforts to continue strengthening and growing the financial sector which fuels the economy.

I wish you all very good deliberations.

Hon. Matia Kasaija,
Minister Of Finance, Planning And Economic Development July 2017

03

BANK OF UGANDA

GOVERNOR FOREWORD

Prof Emmanuel Tumusiime Mutebile

Let me begin by welcoming all the participants and commending Uganda Bankers' Association for putting together this inaugural banker's conference under the theme ***"The Future of Banking"***

The future of Banking is now, It is here with us.

Banking is rapidly changing. Banks and financial institutions across the world must grapple with how technology is impacting the sector in this digital age, how banking regulation must cope with this pace including risk therein, the rise of non-bank players in the banking space given that competition is now coming from come from non-traditional competitors, and how geo-political shifts are impacting all this.

The demands dictated by our demographics mean that social media could play a large role in the future of banking, with customers able to contact their bankers and exchange information through any preferred platform.

The recent financial crisis in several countries is forcing banks and regulators alike to adapt and evolve in order to face the challenges ahead. Institutions therefore need to constantly formulate strategies so as to avoid the mistakes of the past and create the business environment of the future.

I would like to take this opportunity to briefly offer my own perspective on key developments in the Banking sector in Uganda, its role in the economy, and the challenges the sector faces in order for us to discuss the future of Banking.

Between the 2005/06 and 2015/16 fiscal years, commercial bank credit to the private sector expanded by more than threefold in real terms, at an average real rate of 12 percent per annum.

Bank deposits have also grown strongly over this period, by two and a half times in real terms, and there has been a marked rise in bank intermediation, with the ratio of bank loans to bank deposits rising from 53 percent to 70 percent. There has also been a notable strengthening of competition in banking markets.
Lastly, although there have been occasional incidents of bank distress and failure over the last 10 years, prompt regulatory interventions by the Bank of Uganda have ensured that the interests of

depositors have been fully protected, as was the case with the recent resolution of Crane Bank's challenges. This is in line with the mandate given to the BOU under the Financial Institutions Act, which prioritizes the safety of deposits.

The role of banks therefore as intermediaries in mobilizing savings and more importantly in the provision of credit and transmitting monetary policy will remain critical and evident whichever form of fast paced change the dynamics take.

Let me further take this opportunity to reflect on the major developments on the lending/ credit aspects of Banking, during the past year and the challenges which banks face.

The last 12 months have undoubtedly been very challenging for the banking industry. The main cause of the difficulties has been a deterioration in credit quality which began in 2015. For the banking industry as a whole, the ratio of non-performing loans (NPLs) to total gross loans stood at 6.3 percent at the end of March 2017, up from 3.8 percent in September 2015.
There are several factors underlying the increase in bad loans, key among them being delayed payment by Government to its suppliers, which then impaired the capacity of these suppliers to service their bank loans, cost overruns in projects financed by bank loans and insufficient revenue flows once these projects were operational to service the loans especially in the real estate sector, where building projects often cost much higher than planned and where rental income has been lower than originally envisaged, the diversion of funds intended for financing a business into other uses, and this reflects unethical behaviour in the business sector. These three factors combined accounted for 60 percent of the banking industry's bad loans.

The consequences of the deterioration of loan quality have been twofold.

Growth in bank lending to the private sector has slowed markedly. In nominal terms, the stock of bank loans increased by only 7 percent over the past 12 months and there has been virtually no increase at all since the beginning of this calendar year.

> .....there has been a marked rise in bank intermediation, with the ratio of **bank loans** to bank deposits rising from **53%** to **70%**

This is not because loan demand from potential borrowers has slumped, however there has been a decline in the ratio of the value of loans approved by banks to the value of loan applications received.

Banks are, understandably, much more cautious about the creditworthiness of loan applicants than was the case three or four years ago. Uganda's experience is also reflected elsewhere in sub-Saharan Africa, where loan quality has worsened and lending growth has slowed across the region.

The second consequence of the worsening of credit quality has been a squeeze on profitability. The banking industry has incurred much higher loan loss provisions. In the 12 months to March 2017, loan loss provisions were higher by 60 percent than in

...average **lending rate on shilling** denominated loans has fallen by a cumulative **4.7 PPs** to **20.5 %..**

The **shilling** and **foreign currency** denominated weighted average time deposit rates have also **declined**...

the previous 12-month period. It must be noted, however, that increased loan loss provisions for bad debts are not the only factor depressing profitability in the banking industry, which has been falling for several years; the high cost structure of many banks is also a factor.

Looking ahead therefore, the banking industry faces two related challenges. The first is the resumption of growth in its loan portfolios and the second is the recovery of profitability on a sustainable basis.

Given that more than half of the banking industry's income is derived from interest on loans and advances, it is difficult to envisage a sustainable recovery of profitability while loan growth remains stagnant or grows modestly. How individual banks will confront these challenges will depend on their own circumstances and business models, however alongside the strengthening of loan portfolios, I would like banks to look at rationalizing their cost structures and find means of extending services without necessarily spending heavily on cost capital expenditures. The case for technology and how it shapes the future of banking therefore becomes real.

The sustained easing of the monetary policy stance since April 2016 has continued to feed through to commercial bank interest rates. The weighted average lending rate on shilling denominated loans has fallen by a cumulative 4.7 PPs to 20.5 per cent from a peak of 25.2 per cent in February 2016, which is marginally lower than 6 PPs reduction in the CBR over the same period.

Similarly, rates on the US dollar denominated loans have also declined to 8.4 per cent from the average highs of 9.9 per cent in Q4-2016. The shilling and foreign currency denominated weighted average time deposit rates have also declined from 11.4 per cent and 3.0 per cent in February 2017, to 10.9 per cent and 2.7 per cent. Trends in the ratio of Non-Performing Loans (NPLs) to total loans, depict a decline to 6.3 per cent in March 2017, from 10.5 per cent in December 2016. It is expected that the reforms underway in the pensions and insurance sectors will also help to mobilize domestic savings for long term capital, lending further support to the case for private sector credit growth.

I wish therefore to say that, despite the difficulties we have witnessed over the last one to two years, I remain optimistic about the prospects for the banking industry in this country. It has a very strong capital base which provides it with the resilience to withstand severe shocks to its balance sheet and, for the most part, has been prudently managed. As a result, it can command the confidence of the public in its financial soundness.

The challenge ahead of us is therefore to jointly work towards stimulating growth in the economy and development across the population to enable not only banks, but all players run viable and profitable businesses in order to cope with the pace that the future demands.

I wish you all good deliberations.

04

UBA CHAIRMAN FOREWORD

Uganda Bankers' Association is an umbrella organization for commercial banks licensed and supervised by Bank of Uganda. UBA was established in 1981 and is currently made up of 25 members (All 24licensed Commercial Banks + Uganda Development Bank).As the Umbrella body, Uganda Bankers Association has endeavored to promote a sound banking environment through research and innovation, advocacy, good governance and best practices

I welcome you to this inaugural Annual Banking Conference (ABC) 2017 where we will take stock of and gain insights from global, regional and country specific trends in the banking and financial services sector. This sector is increasingly positioning itself to contribute to economic growth and development and the experiences from this conference will enable us contribute to shaping policy interventions, strategies and initiatives to drive and align the financial sector development to the national growth and development agenda. The ABC is an initiative thatwillbecome an annual Uganda Bankers' Association event which seeks to bring togethervarious industry experts both globally and locally.

UBA officials and members at a recent press conference in Kampala

This year's theme of the ABC is "The Future of Banking" which resonates well with the current trends and dynamics of the global village.The future of banking is digital and just like many sectors, the banking sector is changing particularly driven by the demands for customers, the need to reach more unbanked while reducing the costs of doing business.

We have published this Annual Banking Conference (ABC) magazine that will provide useful insights to readers about the future of banking in Uganda. In this magazine, we share how the banking sector in Uganda has evolved over time, from the traditional brick and mortar bank branches to the digital supported platforms we see today.

As an umbrella body the Uganda Bankers Association, we are cognizant that without innovation in the banking sector, our relevance and ability to cope with the demands of our audience will diminish, and consequently we have been at the forefront of innovations to make the banking industry more sustainable, vibrant and in-sync with the ever-changing market needs One of such innovations, is the Agent Banking. We (Commercial Banks) through our umbrella body, resolved to roll out Agent Banking through a shared platform supported by agents spread across the country.

Through the Agent banking Model, banking services will be provided by authorized banking agents. These agent points are much smaller than bank branches but will be equipped with devices to facilitate services. By reducing the overhead required to set up a bank branch and through its use of technology, agent banking will allow financial institutions to reach underserved segments of the population particularly in rural and remote areas in a more cost effective way. We further envisage that this model will generate cost savings which we hope to translate & pass on to our customers via lower tariffs & cost of services.

Let me conclude with a word of gratitude. Articles in this magazine were greatly contributed to by individuals.

Allow me take this opportunity to thank all the authors for participating in sharing their articles and congratulations to the authors whose articles made it for publication in this magazine. A copy of this magazine can be accessed at the UBA offices and through the UBA website at www.ugandabankers.org. I hope that it will provide insights to what the banking industry is able to do so as to meet the country's development aspirations.

We look forward to the publishing of more editions to provide our stakeholders with insights about the banking sector, prospects, partnerships in business, services industry, trade, private equity, government and civil society.

Fabian Kasi-
Chairman Uganda Bankers Association

05

UBA ED FOREWORD

Inaugural Bankers' conference to shape the future of banking.

Wilbrod Humphreys Owor

I welcome you with great pleasure to our inaugural Annual Bankers Conference *(ABC 2017).*

Background:

Banking is one of the most sensitive businesses all over the world. Banks play an important role in the economy and are considered as the backbone of an economy in every country. The banking sector plays a significant intermediary role in the contemporary world of money and economy. It influences and facilitates many different but integrated economic activities like resource mobilization by way of savings, facilitation of trade & investment and provision credit among others.

Monetary policy and banking systems play an important role in economic development across all sectors because the necessary instruments are channeled through banks. The overall performance of banks however does not merely depend upon the banking industry itself but also on the performance and management of the different facets of the economy.

The Managerial Challenge

The 21st century is characterized by unprecedented challenges. Technological advances, social/demographic developments, together with a high level of interconnectedness due to globalization and the rise in the use of ICT is dramatically changing the world's dynamics. Change is happening faster, is more complex, and occurs on a more profound level. To gain traction and sustainable competitive advantage in such an environment, firms need to go beyond developing new products or services: they need to re-think and re-invent themselves through various business models.

UBA's Annual Banking Conference (ABC 2017) will bring together many of the industry's most senior executives from international, regional and national spheres and other thought leaders to discuss issues that will shape banking over the coming years including capacity of banks to cope with the pace of ICT, to contribute to development plans, policy issues regarding critical sectors, competitiveness of East Africa as an investment destination, EAC integration and implications for partner states, the future regulatory challenges, sustainability and responsible banking among others.

The overall goal of Bankers Conference is to take stock of and gain insights from global, regional & country specific trends in the banking & financial services sector, and use these experiences to shape policy interventions, strategies, initiatives to position & align financial sector development to the national growth & development agenda.

The Conference Theme

This year's conference theme is *"The Future of Banking"* which resonates well with the current trends and dynamics including technology and demographics and just like many sectors, evolution in the banking space is real and must cope with the pace of change that has made the Globe a village. The demand for banking and financial services to reach the lowest segments of the population at affordable prices with the relevant/appropriate products & services is more urgent than ever.Banks must embrace & cope with these demands.

The conference will cover several other pain points across various sectors viewed from different lenses.

UBA's Partners

UBA has partnered with several stakeholders across the services spectrum as well as specific sponsors for this conference, key among them being MasterCard, Eclectics International and Compuscan.

MasterCard is a leading global payments & technology company that connects consumers, businesses, merchants, issuers & governments around the world.

Eclectics Internationalis a regional information communications technology (ICT) company offering banking solutions across 23 countries in Africa. Eclectics provides ICT services and platforms in the banking Sector with over 240 banks using their systems and professional services across different countries in Africa.

Compuscan is leading provider of credit management solutions meant to provide the credit industry with relevant and reliable credit management solutions, to assist businesses to make better business decisions, to minimize risk and maximize profits, while at the same time protecting the consumer from over-indebtedness and reckless borrowing.

We are grateful to all our partners including all the various categories of sponsors, the speakers, panelists, moderators, member banks & financial institution and conference participants for joining us and look forward to a rich conference in terms of discussion content and output therein and to use the insights gained to drive the necessary change in the Banking sector in Uganda.

Wilbrod Humphreys Owor
Executive Director.

06

UBA CHAIRMAN INTERVIEW

Conference now an annual event for UBA – Chairman

Mr Fabian Kasi is the Chairman of Uganda Bankers' Association and we conducted an interview with him and below are the excerpts;

What major factors drove you on choosing the Future of Banking as the conference theme?

The banking sector as a whole has evolved and is still evolving. Banks are increasingly undertaking initiatives that enable clients' access bank services at their convenience and without the need to physically access the banking Hall but rather access a service through your mobile phone, Internet, ATM Machines and Point of Sale services among others.

We are also seeing a growth in strategic partnerships between the financial Institutions and telecoms as well as financial technology firms to drive the financial inclusion agenda and reach more unbanked population groups which is critical if we are to realize our vision 2040.
It is against this backdrop that we chose "The Future of Banking" as the conference theme because the face of banking is changing and becoming more digital thereby supporting the delivery of quality banking and financial services.

Tell us about Uganda Bankers Association as an umbrella association and this inaugural Annual Conference.

Uganda Bankers Association is an umbrella body for commercial banks licensed and supervised by the Central Bank of Uganda. It has been in existence for over 35 years working closely with the regulator, Ministry of Finance Planning and Economic Development, legislators, statutory bodies, financial institutions, Government and the general public.

The Annual Bankers Conference is one of the major initiatives that we are undertaking this year and will from this year onwards become an Annual Event for the Association.

The Annual Bankers Conference is a premier event that will attract participants including banking and non-bank financial sector executives, fin-techs, international development partners and multi-lateral agencies, investment advisors, regulators, research associates and academia, legal experts, legislators & policy makers, technocrats from governments and private sector players from key sectors like agriculture, energy, tourism, housing, education, health, and telecoms among others.

What are the intended goals for this conference?

The Bankers Conference will take stock of and gain insights from global, regional & country specific trends in the banking & financial sector, and use these experiences to shape policy interventions, strategies, initiatives to drive & align the financial services industry to stimulate innovation, investment and productivity and contribute towards a stable economy.

Specifically, through this Annual Bankers Conference, we bringing together more than 100 banking industry representatives, government officials and innovators to explore the biggest questions and challenges in the banking and financial services sector and this will further enable us as a sector assess priority actions for improvement of the sector.

Talk us about how UBA is confronting the issue of financial inclusion.

UBA and its members are committed to driving financial inclusion. To facilitate this, we continue with rigorous financial literacy campaigns and initiatives as well as development of products and services tailored to specific target beneficiaries such as SMEs, women, youth. Our innovations stretch to developments and enhancement of technology that enables us reach more unbanked population groups while reducing on the costs of operations.

We continue to address access barriers to financial Institutions and ensuring that clients are able to access and use a broad range of quality and affordable financial services.

As Chairman, what are your proudest accomplishments?

The accomplishments are a result of collective efforts from our members and specifically, invaluable dedication from the UBA EXCO members. We put in place a medium term strategy 2016-2018 to with the following key objectives;

a) To strengthen the internal capacity of UBA;
b) To enhance wider stakeholder engagement& communications to enable UBA play a more leading role in the wider financial sector in the economy as well promote financial services sector priorities;
c) To promote research and innovation in the industry.
d) To broaden UBA funding base to achieve financial sustainability;

To this end, we beefed up the Secretariat by recruiting a new Executive Director as well as a Head for Communication and Corporate Affairs to help drive the execute the strategy.
We have expanded the number of committees and technical working groups including credit, cyber security, assets reconstruction, and agent banking to steer new initiatives in line with the strategic plan.

UBA Chairman, Fabian Kasi adressing a press conference in Kampala recently.

UBA to unveil the Assets Reconstruction Company

The **ARC** will among others be mandated to, to act as a securitization and reconstruction company.....

We are increasingly implementing a shared services approach to exploit economies of scale , an example being the shared platform that we are deploying in conjunction with our partners Eclectics International.

Very soon, we will unveil the Assets Reconstruction Company, a vehicle set up in response to the challenges facing the banking sector arising from high value exposure from non-performing loans /businesses constrained in terms of periods (medium to long term tenure) required to reconstruct/turnaround or find most appropriate means of dealing with.

The ARC will among others be mandated to, to act as a securitization and reconstruction company and to carry on the business of securitization and/or asset reconstruction.
Benefits of the ARC include,

- Acquisition of Non-Performing Loans from challenged Banks, improve retained earnings & capitalization & stimulate recovery of banking system.
- Increase opportunity for reconstruction, turnaround, equity investments etc. for borrowers, investors, insurers, investment advisors, and economy as a whole via credit quality, investment & reconstruction of stressed businesses.

The Association is also progressing the establishment of a research and policy development desk to strengthen our advocacy and informative role.

We have also recently expanded our membership by introducing the associate membership category to bring on board other supervised financial institutions to work together on cross cutting issues like Fraud Control & Mitigation, Anti-Money Laundering, KYC, Credit Reference Bureau issues, Risk Management, Training, Promotion of uptake of services and undertaking of shared technology projects etc.

We have entered into other partnerships with local & international agencies in the financial sector who have agreed and joined us in promoting growth in the financial sector. One such partnership is with MasterCard whom we are going to work with on several fronts including enhancing security frameworks and, research among others.

We are working with the judiciary and the Uganda Law Society to have a functioning mediation framework.

Where do you see the association in five years' time and any last words?

It is my prayer and wish to have this association grow from strength to strength, widen its membership without diluting the ideals of UBA, yet utilize that strength to lobby and influence positive change in the sector.

Let me use this opportunity to thank all our conference partners& sponsors.
Special thanks go to MasterCard, Eclectics and Compuscan for the partnership agreed on.
I thank all the stakeholders participating in this conference including our own Regulator BOU for the support towards the Banking Sector.

I thank all the Bank CEOs, the ED UBA and his staff for all the work they are doing.

07

UBA ED INTERVIEW

Challenges and way forward approaches for Uganda's Banking Sector

In 2016, there was a public outcry about the interest rate regime with calls for interventions be taken to stem the cost of borrowing in Uganda. Wilbrod Humphreys Owor, the Executive Director Uganda Bankers Association (UBA), makes comments on this and several other issues in Banking.

What is UBA's position on the legislation passed in Kenya related to interest rate regimes?

We do believe our economies have different dynamics or drivers and our counterpart in Kenya, the Kenya Bankers Association made their case responding to this development. As far as the Banks in Uganda are concerned, we do believe, Uganda as an economy has registered considerable strides in its liberalization policy stance and that any major policy reversalis not warranted going by the experience we have had in the past, with legislated interest control regimes and lessons learnt therein.

Kenya's GDP is nearly three times that of Uganda with a tax to GDP ratioof 18.7% compared to ours at 13%. There are also very different structural & supply side rigidities between Kenya and Uganda including the level of depth & sophistication of their financial markets.

The experience in Kenya since that legislation was passed also demonstrates that we are better off maintaining our current policy stance.

With the monetary easing since last year todate, that has seen CBR come to 10%, Banks have been correspondingly lowering lending rates.

Our debate should shift to growing our economy to have a much bigger GDP, meaning we create a bigger basket from which live on, not passing laws that constrain growth of the financial sector.

What are the key determinants/ drivers of interest rates?

These are divided into two that is external and internal factors. External factors influencing the cost of credit include things like treasury bill rates which gives the indicative signal on Government borrowing, the Central Bank Rate

UBA Executive Director, Wilbrod Humphreys Owor adressing a press conference in Kampala recently.

which is often spoken about, the prevailing inflation rate and regulator cash reserve requirements. Internal drivers include operating costs, the structure &cost therein of deposits or alternative funds (capital), risk factors including the Non-Performing Loan (NPL) ratios and what we call the liquidity premium. It's therefore a blend of a number of key economic indicators and market trends besides the cost of borrowing from within and in there lies the pricing of risk and sector appetite.

If you like, interest rates can be equated to the price of money, the same way we have the price of fuel or electricity or food, clothing etc. Please also remember that none of these items have price caps or legislation regimes.

But Banks take deposits (customers money) and use it to lend to borrowers and at very high interest rates. Why can't banks lend this money at more reasonable costs since its comes free of charge?

Banks actually pay a premium for client deposits and this applies considerably to Time deposits. I mentioned the structure of deposits earlier and here I meant three types of deposits namely current accounts, savings accounts and fixed deposits. Current accounts hardly attract a cost because these monies have to be provided to the client on demand and yet there are high costs of keeping it safe. Savings attract a rate of about 3% while fixed deposits are much higherin the range of 12%-14% and above.

Since current & savings deposits cannot be committed for long or medium term Investment and yet most of the client needs are medium and long term, Banks therefore have to find alternatives funds to bridge the gap to avoid funding mismatches and this comes at high cost (Cost of Capital).

Also as mentioned earlier, not all deposits are lent out due to cash reserve requirements and such cash earns no revenue at all to the banks.

There are arguments that if there's no change in the interest rate regime in Uganda, commercial banks will continue to charge exorbitant rates on customer credit hence discourage business growth and Uganda's competitiveness. What's you view on this?

The current interest rates reflect our macro-economic environment and take into consideration a variety of factors as mentioned above.A shift in policy could benefit a selected number of borrowers only mainly the Corporate sector & governmentinform of bonds and treasury bills which would obviously crowd out credit for the rest of sectors in the economy.

Our own experience from Uganda's past and other markets show that legislated interest rate regimes do not necessarily translate into lower cost of credit and discourage players from investing in the financial sector, which sector is the fuel of an economy. There is little evidence to show that similar laws have led to credit growth in other countries. On the contrary, incorrect pricing of risk has often led to the collapse of banks, with millions of savers monies getting burnt & lost out in the process.

You may want to remember that when mobile phone services came into this country many years back, it was not legislation that brought down the price of mobile phones or airtime etc.
What is important for us is to address the external factors I mentioned that impact on the cost of credit and for us Banks to examine our modes of operations to bring about efficiencies that we can then pass on to customers & stakeholders through more competitive pricing, better customer service and accessibility of financial services across all segments of the population.

There exist several other fiscal & supply side issues including cost of doing business that could be addressed to make Uganda more competitive.

UBA management team after a meeting with their stakeholders.

How would a policy reversal like introduction of an interest rate legislated regime affect the customer and the banking industry at large?

One of the benefits of the liberal policy stance has been a very good growth of provate sector credit. Between Dec 2010 and June 2016, private sector credit grew from 5.4 trillion Ugx to 10.9 trillion Ugx with significant growth in Building & Real Estate, Trade & commerce, Personal Loans, Manufacturing and Agri business.

With a policy reversal like the one above, we could see a number of shifts in the dynamics around Banking.
Like it has happened in other markets, credit tends to contract in a legislated interest rate regime, because of reluctance to price risk using caps & un-regulated lenders take more space. Instead banks could revise their cost structures to meet their operation costs in the face of lower interest income. Banks could be forced to close unprofitable and non strategic touch points hence impacting customer service for particular segments.

Banks could introduce new fees and commission lines that will help the industry bridge the gap created by a drop in income on net interest income lines. As a result, transacting services will become more expensive. We could see the banking industry increase lending in US dollars hence dollarizing the economy. This as you may appreciate can be very dangerous owing to fluctuations in exchange rates, but also because there can

UBA ED Owor hands over an award to URA's Commissioner General Akol

be mis-matches between the currency in which the business earns revenue namely shillings vs the currency in which the loan is paid. This obviously would limit the amount of credit to people borrowing for personal development because most borrow to finance domestic initiatives paid in local currency.

Further more, we could see a dip in investment budgets and re-evaluation of headcount to keep costs in line with income. Today, the banking sector employs over 10,000 employees directly. That's a number that may not be sustained with an unfavorable policy for the industry. It's therefore important that decisions that are made guarantee job security and investment in the banking industry and related sectors. UBA remains committed to holding a structured dialogue on the drivers of the cost of credit and contributing to solutions around the structural impediments to sustainable growth and economic development and we surely believe there exists better ways to address these challenges.

You mentioned Non Performing Loans as a factor to be taken into account on the issue of Lending. What do high NPL ratios mean to the industry, when traders are complaining that Banks are selling their property unfairly.

NPLs which is a ratio of unpaid loans/loans in arrears as a percentage of total loans/ credit at one point went up to 10.6%. it theoretically meant for every 100 Shillings lent, only 89.4% would come back. Who would want to lend only to lose money!
Although NPLS have now come down, NPLs eat into capital, impacts on liquidity and discourages & increases the cost of credit.

You are familiar with the challenges that one of our member banks faced and the resultant consequences. Banks are as a result exercising caution in lending as they pursue other growth strategies.

Growth in Private Sector Credit (PSC) remains subdued, notwithstanding the monetary policy easing, annual growth in PSC averaged 6.5% in the quarter to Apr'17 as in the quarter to Jan'17.

The growth in credit has largely been driven by growth of credit to Agriculture, Trade, and Personal loans (which together account for 54% of total credit). This modest PSC growth despite the sustained monetary easing in part highlights the supply-side constraints to credit growth.

Credit growth to the manufacturing, building and services other than business services sectors (which together account for 34% of total credit) has been negative.

The more important issue though is what are the key causes of NPLs?

Delayed payments currently constitute 24%, Cost overruns & insufficient cash-flows 23%, Diversion of funds (Poor Governance & Indiscipline) 15%, others include unforeseen demand shrinkage of markets e.g. challenges in S/Sudan, Unfavorable FX movements, absence of long term credit etc.

Uganda Bankers Association is spearheading the formation of the **Assets Reconstruction Company (ARC)** to assist banks in management of toxic debt ...

Banks have prudential guidelines in pursuit of recovery and collaterals though not the key item in loan appraisal, is a fall back safety valve.

In the recovery process, there are stages of reminders, negotiations, restructure etc and foreclosure is only done after 455 days. Even then the borrower has options to find buyers or can still propose other rescue measures. Banks are not in the business of collateral disposals and indeed this process hurts us and our business relations. Every effort must therefore be made by all parties to avoid this painful process.

What can banks do to contribute to overcome these challenges & what are you doing as an industry to improve services or even bring down the cost of credit. What new initiatives can we expect from the banking industry?

The first point of contribution is to improve on financial literacy. It is important for the population to appreciate the dynamics in the financial sector and key drivers that impact on financial services including the key players therein, their rights and roles. On this front the Banks together with the regulator BOU are investing heavily on this front and you will be see more visibility from us going forward.

UBA member banks are already working closely with the regulator to strengthen the credit reference bureau and creditworthiness information sharing which greatly informs the pricing matrix for loans. Good loan payers deserve good and competitive loan prices, while loan defaulters discourage credit and place a big burden to others. It's never in the interest of lenders to raise the cost of borrowing because that leads to less access to credit, less aggregate demand and a contraction of the economy.

We are partnering with the insurance sector to mitigate risk and bring in more sectors that would typically be considered unattractive to banks to make them more attractive, Agiculature being one such area. You will realize that as we enter the industry of midstream and upstream Oil & Gas, lending structures purely tied to physical collateral will be difficult to sustain. Transactions in the O&G tend to be large and there are limits to physical collateral. Performance risk becomes the more critical issue and lending structures are built more based on contracts & gurantees around capacity to deliver supported by non collateralized structures ring fencing the whole transaction chain.

Banks are also factoring in more and more aspects of sustainable financing/social impact when undertaking financing appraisals. In project appraisals,we are increasingly giving weight to issues like No of Jobs to be created, the value addition created out of the project, import substitution, tax generation, skills transfer, technology transfer and sustainability of the environment among others.

Uganda Bankers Association is spearheading the formation of the Assets Reconstruction Company (ARC) to assist banks in management of toxic debt through restructure/ reconstruction/turnaround of

such companies especially those with systemic ramifications. This will open another big window of opportunity that we must all embrace.

We are also undertaking collaboration projects that involve shared technology platforms tobring down the cost delivery of services while increasing outreach/foot. Going forward you will see several technologically driven banking services being extended to the previously unserved or underserved population. In this endeavour we wil collaborate with serveral other stakeholders& players like telecoms, fintech companies, thousands of agents across the country to reach the wider population. You wil also see more products including loan products extended to this huge chain of agents to enable them run their own businesses as well as reach the population. This whole digital finance era should be able to bring alot more money into the formal financial system which in-turn enables better transmission of monetary policy. This is a matter we have full consensus with Govt, Regulators, Development partners , service providers & consumers themselves. We intend to engage Government of Uganda and submit structuring & guarantee proposals through special purpose vehicles to enable banks in Uganda participate in raising funding for key economic/infrastructural projects in Uganda/or EAC region that can be syndicated by all banks as well as provide framework to attract/give comfort for other funding partners to come on board. This however means that there will be need to strengthen the governance and monitoring around these projects. We really need to address the challenge of shortage of long term finance as well as how to deepen our capital market.

Clearly Banks play a major role in the development of an economy and our preference in this current debate is that the country challenges us more on playing a more leading role in the economy other than focusing on legislating interest rates.The Banking Industry are among the largest group of tax payers as well as the single largest group of contributors to the retirement benefits sector in the country. The Banking spend on CSR and IT are equally big.

UBA ED Wilbrod Owor shares a word with the Minister of Finance Matia Kasajja

Any final words?

We have extracted some industry information in the next pages for our readers to gain appreciation of the challenges we face in running a bank in our current environment. We are open to &undertake to maintain dialogue with all stakeholders on these matters to find amicable solutions to our internal challenges.

We implore our regulators & policy makers to remain steadfast & resolute in being consistent with monetary policies and urge them to continue with the much applauded consultative approach in tackling challenges which has won the confidence of the industry, investors and wider public as a whole.

08

BANK OF UGANDA
RESEARCH DEPARTMENT

Consequences of capping bank lending rates

Kenya has enacted legislation which caps bank lending rates of interest at four percentage points above the central bank rate in that country and puts a floor of 70 percent of the central bank rate under deposit rates of interest. Similar proposals have been put forward in this country by some stakeholders. In this article I want to explore the reasons for high lending rates of interest in Uganda and what the most likely consequences would be if interest rates were to be capped.

Why are lending rates high in Uganda

Bank lending rates are undoubtedly high in Uganda. The average bank lending rate for Shilling denominated loans in April 2017 was 20.5 percent. Over the last four years, interest rates on Shilling denominated loans averaged 22.7 percent, whereas the Central Bank Rate (CBR) averaged 12.9 percent in this period (chart 1). Many borrowers feel aggrieved at the interest rates that they are charged but it is important that we understand why lending rates are high and what might be the consequences if they were capped by legislation.

Consequences of capping bank lending rates

Chart 1:
The Central Bank Rate and Bank Lending Rates for Shilling Denominated Loans: May 2013-April 2017

Source: Bank of Uganda

Commercial banks in Uganda held, at the end of the 2015/16 financial year, total assets amounting to almost 23 trillion. However, approximately 32 percent of these assets consist of cash and reserves and fixed assets such as buildings which do not directly earn revenues for banks. The remaining 68 percent of the banks' total assets are their earning assets. The earning assets of the banks mainly comprise loans to the private sector and government securities, with the former comprising just over two thirds and the latter slightly less than one third of earning assets.The interest income earned from banks' loans and holdings of government securities must cover all of their costs and allow for banks to make a profit on their operations.

One of the challenges facing the banks, and a major reason why lending rates remain high, is that banks incur substantial costs in doing business. Banks' annual operating costs, which consist of salaries, utilities, rent, depreciation, etc amountedto almost 11 percentof their earning assets (see table 1). That means that an average of nearly 11 percentage points of the interest rate charged on all loans and securities is needed simply to cover the banks' operating costs. In 2015/16 banks incurred a further cost equivalent to 2.4 percent of earning assets as provisions for bad debts. Finally annual interest expenses, mainly on deposits, amounted to the equivalent of a further 4.6 percent of earning assets of the banks.In total, annual operating costs, provisions for bad debts and interest expenses amount to almost 18 percent of banks' earning assets in 2015/16.

Table 1:
Costs and income of banks as a percentage of earning assets; 2015/16

	costs			income
interest costs	4.6%		interest on loans	12.0%
provisions	2.4%		interest on securities	3.7%
operating costs	10.9%		other interest income	0.7%
			other (fees, charges)	6.3%
total	17.9%		total	22.8%

Source: Bank of Uganda

The data for the end of the 2016/17 financial year are not yet available.

Consequences of capping bank lending rates

How do the banks cover these costs? There are three main sources of income; interest on loans, interest on securities and fees and charges. The gross income of the banks in 2015/16 amounted to 22.8 percent of their income earning assets, of which interest from loans accounted for slightly over half. Although interest income is certainly very important for banks, the amount of interest income they earn from lending is not quite as large as might be expected. The average interest yield on all bank loans in 2015/16 was only 17.2 percent. This yield is a combination of the average interest rates on both Shilling and foreign currency loans, with the interest rates on the latter being much lower than on the former.

The difference between gross income and expenditure is profit before tax. Once income tax is paid, banks made profit after tax amounting to 3.2 percent of their earning assets, or 2.2 percent of their total assets in 2015/16. What matters most for shareholders is return on equity (ROE), which is after tax profits as a percentage of capital invested.

Banks made an average ROE of 13.8 percent in 2015/16 (table 2). Banks are sometimes accused of making exorbitant profits, but bank ROEs have been fairly modest in recent years compared to returns on other financial assets. Over the last three financial years, banks' after tax ROEs have averaged 14.8 percent. In comparison, the average after tax yield on 10 year Treasury Bonds in this period was 12.9 percent. Both equity and bonds are long term financial assets but equity is always more risky than government bonds, and so would normally command a much higher average annual return. In fact the difference between the returns on relatively risk free government bonds and bank equity was less than two percentage points, which does not suggest that bank profits have been exorbitant in recent years.

	2013/14	2014/15	2015/16
ROE banks	12.8	17.7	13.8
Yield on 10year Tbonds	11.4	12.7	14.6

Table 2
After tax returns on bank equity and after tax yields on Treasury bonds (percent)

Source: Bank of Uganda

Furthermore, a profit after tax of just over 3 percent of income earning assets is only just sufficient to meet the banks' requirements for additional capital to support the growth of their business, even if they retain all of their after tax profit and distribute none to shareholders as dividends. Over the last five years, 60 percent of total bank profits have been retained to enhance their capital of banks. Capital adequacy requirements have just been raised in Uganda, as elsewhere in the East African Community, in accord with the recommendations of Basel III. If bank profits were to decline, the growth of their business, and especially of their risk weighted assets such as loans, would be retarded because they would not have sufficient capital to support this business.

In summary, I would argue that high bank lending rates are mainly the result of the high costs of doing bank business in Uganda. It is the high costs, rather than exorbitant profits which keep lending rates high. After tax profits in 2015/16 were only 14 percent of the banks' total costs. Most banks in Uganda have a high cost business model which involves substantial staff costs and investment

> .....after adjusting for inflation, bank lending to the private sector has expanded five times since 2001.

Consequences of capping bank lending rates

in bank branches. This business model has brought benefits in terms of widening access to banking services in Uganda. It has also allowed banks to expand their loan books at a very robust pace. In real terms, after adjusting for inflation, bank lending to the private sector has expanded five times since 2001. The number of bank branches has increased around six fold since the early 2000s.

What would happen if lending rates are capped?

What would be the consequences of capping bank lending rates? Given what I have described above about the cost and income structure of the banks, I don't think it will be a feasible option for most banks simply to reduce interest rates and absorb the loss of interest income in lower bank profits, because this would cut bank profits below the level necessary to support the growth of their capital base and provide a competitive commercial return to their shareholders. Instead banks would either have to replace lost interest income with other forms of income or cut their costs. Obviously the response of banks would depend on how much interest income would be lost as a result of an interest rate cap. The lower the interest rate ceiling imposed on the banks, the more interest income they would lose and, therefore, the more drastic would have to be their response in order to avoid a profit squeeze. A range of possible options would be available to banks, and it is likely that different banks might choose different options. *These are discussed below;*

1.Look for other sources of income

Banks could try to continue with their high cost business model but attempt to replace lost interest income by higher fees and charges levied on customers. In principle this would be feasible. Non-interest income is approximately one half of interest income for banks in Uganda, so if an interest rate cap were to cut interest income by, for example, 20 percent, the various fees and charges would have to rise on average by 40 percent. There would be a redistribution of costs from bank borrowers to bank customers in general; the former would gain and the latter would lose. It is not self-evidentthat this is desirable, especially as borrowers are probably wealthier, on average than bank customers as a whole.

2.Curtail lending to high cost borrowers

Banks could cease extending loans where the expected costs to the bank, in terms of administrative costs and expected loan loss, exceed the income that can be earned at the maximum lending rate allowed. This would mean that banks would stop lending to smaller borrowers, because smaller loans entail higher administrative costs per unit of loan value, and to the more risky borrowers. Small and medium scale businesses would probably be hit hardest. Most of those who complain about the high cost of borrowing would be denied access to bank loans. Instead banks would concentrate on the larger, less risky borrowers and probably invest more in government securities. Given the importance of the small and medium scale enterprises for growth and job creation, this would retard development in Uganda.

Consequences of capping bank lending rates

3.Abandon the high cost business

The most drastic response would be for the banks to shift from away from the high cost business model. This would involve retrenchment of staff and bank branches to slash operating costs and it would inevitably impede the banks' capacities to provide banking services. Banks would retrench to focus on their core customers in major urban centres. As with the second option, bank lending to high cost customers would be curtailed. The growth of bank intermediation would be retarded, with adverse consequences for economic development.

How would capping interest rates affect investment from cross border banks?

International banking regulations stipulate that cross border banks must hold capital against all of the risk weighed assets of their consolidated subsidiaries, including those in which they hold less than 100 percent of the equity. Since the global financial crisis, capital requirements have been raised, especially for globally systemically important banks which are subject to a capital surcharge. The requirement to hold more capital against consolidated global assets has shifted incentives against investment in high risk countries, unless rates of return in the subsidiaries in these countries are high enough to compensate for the increased capital requirements. This is one of the reasons why Barclays has sold its controlling stake in Barclays Africa Group. If interest rate caps depress returns on equity in Uganda, investment by cross border banks in banking subsidiaries in Uganda will become less attractive, with the result that other banks may disinvest.

Conclusion

A cap on bank lending rates would have consequences which might far outweigh any benefits derived by borrowers. It is not realistic to expect that banks can simply absorb the loss of interest income from their profits. At best banks would seek to replace lost interest income by levying higher fees and charges on customers. At worst they would cut back on intermediation and the provision of financial services to cut operating costs and the provisions they have to make against bad debts.

Over the last five years,

60%

of total bank profits have been retained to enhance their capital of banks.

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Our vision at Compuscan is to be the leading provider of credit management solutions.

Current Product Range in Uganda

Credit Bureau Services - A centralised database recording the credit history and activities of consumers, SMEs and corporate entities.

The Financial Card System (FCS) - A unique card used to verify a consumer's identity, using biometric technology to store identification data.

Compuscore - Predict consumer credit behaviour in terms of risk and the probability of default throughout the credit life cycle.

Codix - Automate the decision-making process and have the assurance to uphold your business strategy.

Risk Rater - A risk-based analysis comparing the exposure of a client's bank portfolio against their exposure in outside markets.

Credit Alert Monitoring (CAM) - Use the credit bureau database to monitor borrowers' movements within the credit industry and be alerted of changes in their potential credit risk.

Batch Data Services - Giving our clients the ability to obtain large extracts of credit information on their own customers in order to update entire loan book portfolios, review credit facilities, pre-vet cross sell campaigns, or prioritise collections by using the latest updated information.

Core Legal Compliance

- BOU Guidelines to Credit Reference Bureaus for the operation of Credit Bureau Services
- Licensing Agreement (BOU & Compuscan)
- The Financial Institutions (Credit Reference Bureau) Regulations 59 of 2005
- Financial Institutions Act, 2004
- Financial Institutions Amendment Act, 2016


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09

KEYNOTE SPEAKER PROFILE

Professor Njuguna S. Ndungu

Governor of the Central Bank of Kenya (2007-2015)

Professor ***Njuguna S. Ndungu*** is an Economist, University Professor Researcher. He is the former Governor of the Central Bank of Kenya, a position he occupied for two consecutive four-year terms, from March 2007 until March 2015.

Currently he is a Member of the Brookings Africa Growth Initiative (AGI) Distinguished Advisory Group, and a Member of the Advisory Committee of the Alliance for Financial Inclusion.
His recent contributions to public policy is in the area of transformative technology in Africa to create a better environment for game-changing innovations and entrepreneurship:
https://www.brookings.edu/research/boosting-transformational-technology/

Professor Ndungu become the first Governor in Kenya to complete two terms since the law was put in place in 1982. Prior to this appointment as Governor, he was the Director of Training at the African Economic Research Consortium (AERC), a capacity building network in Africa in economic policy and analytical capacity. He has taught economics at the University of Nairobi, has worked with the International Development Research Centre (IDRC)

At the Kenya Institute of Public Policy Research and Analysis (KIPPRA), a government think-tank, Prof Ndungu as Principal Researcherled the team to develop a macro model for Kenya in 2001 which has since been used as a training tool by most countries in eastern and southern African Region.

He has been a member of various regulatory boards in the financial sector in Kenya. He has been a member of the National Economic and Social Council (NESC), an advisory committee for the government and in the Kenya's Vision 2030 Delivery Secretariat. He was the founding chair of the Steering Committee of the Alliance for Financial Inclusion (AFI) based in Bangkok, Thailand from 2009 till Sept 2012.AFI was formed in 2009 to promote financial inclusion in Africa, Asia and Latin America.

He has also chaired of the African Mobile Phone Financial Services Policy Initiative (AMPI), a sub-network of AFI that promotes financial inclusion in Africa via the mobile phone financial services. He has been a member of the Committee of Ten (C10) comprised of five African Finance Ministers and five Central Bank Governors representing the 5 regions of Africa. This Committee, formed during the global financial crisis, was mandated to look into ways of mitigating the crisis through appropriate policy response; communicating and coordinating Africa's response and required global reforms especially in the world's financial architecture.

Prof Njuguna is a researcher and trainer in various fields of economics. He has published in journals and chapters in volumes on inflation, exchange rate, economic growth and poverty reduction. He holds a PhD in economics from Gothenburg University, Sweden, a Bachelors and Masters of Arts in Economics from the University of Nairobi and is an Associate Professor of Economics from the University of Nairobi. In recognition of his role in national economic development, His Excellency the

President of the Republic of Kenya conferred the Award of First Class of Chief of the Order of the Burning Spear (CBS) on Prof. Ndungu in 2009.

OTHER SPEAKERS

Moderators & Panelists

Moderator	Session
Mr. Francis Kamulegeya PWC	**Topic: Financing of the Agricultural Value Chain** **Panelists:** 1. aBi Trust, 2. Nile Breweries 3. DFCU Bank, 4. Uganda Insurers Association 5. Sasakawa Global. 6. Strathmore Univeristy Business
Mr. Micheal Niyitegeka ICDL Africa	**Topic: he Digital Finance Revolution: Trends, Insights and Cyber Risks therein** **Panelists:** 1. Eclectics International 2. Compuscan 3. Stanbic Bank 4. Ministry of Iinformation and Communication Technology & National Guidance 5. Mastercard 6. Gilat Telekom
Ms. Aggie Konde NTV	**Topic: Responsible & Sustainable Banking** **Panelists:** 1. Advocates Coalition for Development and Environment 2. Civil Society Budget Advocacy Group (CSBAG) 3. Barclays Bank 4. Consultant 5. Sustainable Development Goals Centre for Africa 6. Makerere University Business School
Mr. Simon Rutega Fnancial Markets Development Committee (FMDC)	**Topic: Addressing the Challenges/gaps around long term financing** **Panelists** 1. Kenya Bankers Association 2. Housing Finance Bank 3. National Social Security Fund 4. Capital Markets Authority 5. Uganda Manufacturers Association 5. Former Minister of Finance, Planning and Economic Development
Mr. Maurice Mugisha NTV	**Topic: Regulatory oversight and reforms": How is regulation and oversight supervision coping with fast paced changes happening in the banking & financial sector?** **Panelists:** 1. Bank of Uganda 2. Former Minister of Finance, Planning and Economic Development 3. Chairperson Committee on Finance, Parliament of the Republic of Uganda 4. A.F. Mpanga and Co. Advocates 5. Financial Sector Deepening Uganda

Panelists

Session	Name of Panelist
Financing of the Agricultural Value Chain	**Ms. Josephine Mukumbya-** aBi Trust **Mr. James Bowmaker-** Nile Breweries **Mr. Paul Van Apeldoorn-** DFCU Bank **Ms. Miriam Magala-** Uganda Insurers Association **Mr. Joseph Paschal Bbemba** Sasakawa Global **Ms. Grace Kariuki**- Strathmore University Business School
The Digital Finance Revolution: Trends, Insights and Cyber Risks therein	**Mr. Paul Mbugua**- Eclectics International **Mr. Chris Bwakira**- Vice President and Business Head , East Africa Mastercard **Mr. Mike Malan**- Managing Director Compuscan **Mr. Shem Kakembo**- Stanbic Bank **Mr. Yaron Farachi-** Gilat Telecom Uganda **Mr. Vincent Bagire-** PS Ministry of ICT and National Guidance
Responsible & Sustainable Banking	**Dr. Arthur Bainomugisha-** Advocates Coalition for Development and Environment **Mr. Julius Mukunda**- Civil Society Budget Advocacy Group **Mr. Rakesh Jha-** Barclays Bank **Mr. David Sseppuuya**- Consultant **Prof Balunywa**- Makerere University Business School
Addressing the Challenges/ gaps around long term financing	**Mr. Jared Osoro**- Kenya Bankers Association **Mr. Mathias Katamba**- Housing Finance Bank **Mr. Richard Byarugaba**- National Social Security Fund **Mrs. Maria Kiwanuka**- Former Minister of Finance, Planning and Economic Development **Mr. Paul Bwiso**- Uganda Securities Exchange **Mr. Richard Mubiru**-Uganda Manufacturers Association
Regulatory oversight and reforms": How is regulation and oversight supervision coping with fast paced changes happening in the banking & financial sector?	**Mr. Benedict Sekabira**- Bank of Uganda **Dr. Ezra Seruma**- Former Minister of Finance, Planning and Economic Development **Hon. Henry Musasizi**-Parliament of the Republic of Uganda **Mr. David Mpanga**-A.F Mpanga Advocates **Ms. Jacqueline Musiitwa**- Financial Sector Deepening Uganda

Digitising The Agriculture Value Chain For The Benefit Of East Africa's Economies

byMichael Elliott, Mastercard Labs for Financial Inclusion

Agriculture is more than just a sector in East Africa: it is the backbone of the region's economies. In Kenya, for instance, about **80 percent** of the workforce participates in farming or food processing, while in Tanzania, the sector contributes nearly **$13.9 billion**to the GDP. Overall, it accounts for nearly 30 percent of GDP in East Africa and employs over 60 percent of the population. Its importance therefore cannot be underestimated – making it vital to develop tools to support the industry.

Recognising both the importance of farming to development and growth across the region and the need for effective solutions to streamline the entire value chain, Mastercard Labs for Financial Inclusion- an initiative aimed at bringing those previously excluded into the economic mainstream–has created a number of tools that harness the power of digital in order to strengthen critical sectors like agriculture.

Digital continues to gain exceptional traction across the continent because of the ability of technology, particularly mobile, to connect people and make a real difference in their lives. Mobile penetration is already at the 85 percent mark, according to Ericsson's latest Sub-Saharan Africa Mobility Report, and thisnumber is only going to increase exponentially, with predictions that it will hit 105 percent by as early as 2022. This indicates the potential of digital finance solutions to effect real change that will impact a broad cross-section of Africa's people.

Tapping into this capability, Mastercard has worked with its partners across sectors on the ground to developand implement a range offinancial tools to digitise the agricultural value chain in East Africa:2Kuze in Kenya, and eKilimo in Tanzania. 2Kuze, which means 'let's grow together' in Swahili, is effectively a digital agricultural marketplace targeting Africa's small-scale farmers, agents, large-scale buyers and financial service providers; eKilimo means 'eAgriculture'in Swahili and serves the same function in Tanzania.

Essentially the same solution operating under different names, thedigital platforms work to increase efficiencies in the country's agricultural sectors in a secure, simple and transparent way. It connects farmers, buyers and agents through both feature and smartphones and facilitates the entire transaction, removing the need for the country's farmers to walk long distances to sell their produce at markets. As a result of more direct access to buyers, the ability to network by sending SMSes about their produce and overall greater price transparency, farmers are also typically able to make a higher profit on the value of their goods.

Streamlining the supply chain and transaction processes in the agricultural sector will undoubtedly impact not just the industry itself but the entire economy meaningfully – and ultimately enable small-scale farmers to access formal financial servicesthat they previously may have been excluded from. This will go a long way towards driving financial inclusion for the region's engines of development through more accessible and efficient tools.

2Kuze and eKilimo have, in fact, both already contributed significantly to strides made in fostering higher levels of financial inclusion in Kenya and Tanzania. Although research by the World Bank shows that financial inclusion is at a relatively high level, in Kenya in particular where75 percent of adults have an account, there is always room for more integratedsolutions to bring more people into the formal financial fold. The fact that only 40 percent of adults in Tanzania have an account just serves as testament to this fact.

Mastercardhas therefore worked to ensure that the right solutions that create real and tangible change are brought to life. Because cash remains the main obstacle to financial inclusion across the continent,effective solutions need tobe easily available at the touch of a button in people's hands – and 2Kuze and eKilimo have certainly indicated that this approach works, consistently driving both digital and financial inclusion, delivering on the Mastercard Innovation Lab's mandate.
These digital tools form a critical part of the company's global commitment to reach 100 million people currently suffering as a result of being financially excluded from the mainstream by 2020. The East African Lab – supported by the Bill and Melinda Gates Foundation – aims to empower Africansby developing relevant solutions that have been identified as critical drivers of growth.

Cashless solutions are going to continue to act as agents of change for millions of Africans, and Mastercard has committed to being an active part of this change by partnering with like-minded innovators in both the public and private sectors to create financial products and services that will support and encourage increased economic activity in critical sectors such as agriculture, as well as allow more citizens to make payments and transact easily and effectively.

END

Shedding Light on the African Shadow Economy

By Daniel Monehin, Division President for Sub-Saharan Africa and Head of Financial Inclusion Pillar for International Markets, Mastercard

The Informal Economy, or if you have a penchant for the more colourful descriptor, the "Shadow" or "Grey" Economy, is typically the term used to refer to the portion of a country's economy that transact exclusively in cash, thus making it infinitely more difficult to include these economic activities in any form of official statistics, oversight, taxation and regulation. According to the OECD, two-thirds of the world's workers will be employed in the Grey Economy by 2020. The issue is compounded when you consider the significant contribution the Grey Economy makes to any emerging market's GDP. By and large, it's an issue created by the lack of inclusion, and the lack of access to formal financial infrastructure, especially in economies where wealth and assets are not distributed equitably. Folding the informal sector in with the formal sector is probably one of the most significant policy-making challenges 21st century governments face.

First coined in the 1970s, the Grey Economy was thought to be a temporary phenomenon which would shrink, even disappear, once countries achieved sufficient levels of economic growth, and modern industrial development. Today, more than 40 years after its characterization, the Grey Economy can no longer be considered a "temporary phenomenon"; if economic growth is not accompanied by equitable income distribution, or an equal rise in employment levels, then we see an increase in the growth of the Grey Economy. In fact, in Sub-Saharan Africa, informal employment accounts for a significant share of total non-agricultural employment, ranging from 33 percent in South Africa to 82 percent in Mali. Admittedly, by the very virtue of the nature of the Grey Economy, it is impossible to provide anything more than estimates in this regard.

Most citizens in emerging economies don't join the informal economy by choice– it is very much a byproduct of the citizenry's need for survival, providing for themselves and their families; it is essential for any human being to be able to have access to basic income generating activities. Therein lies our opportunity – bringing this informal economy into the fold, by affording previously-excluded individuals access to basic financial services. While we don't believe that the Grey Economy will ever be completely eliminated, we can certainly reduce the shadow-cash it generates by continuously building the tools that drive financial inclusion in all markets, not just the developing markets.

Mastercard has made tremendous inroads in several African markets, by equipping governments, local entrepreneurs, merchants, traders and the like with the tools to formalize payments through digitization and generate sustainable growth. Our role at Mastercard is trying to lower, or even eliminate, the barrier to entry to the formal economy, and our spirits are buoyed by some of the successes we've had in the last few short months. Consider a service like 2KUZE, launched in Kenya in January, or eKilimo, launched in Tanzania earlier in March – services that are connecting several thousand farmers, merchants, agents and large buyers in their respective markets to basic services for them to conduct their business, empower themselves and their employees, and providing for their families, transitioning from the informal to formal economy seemingly overnight.

By its very nature, the characteristics of a shadow/grey economy is largely negative – it can easily trap employees and enterprises alike in a spiral of low productivity and poverty. By working with our various governmental partners, Mastercard stands firm in its commitment to empower 100-million Africans to join the formal economy by 2020.

END

10 TECHNOLOGY IN BANKING

Introduction

One of the greatest boasts of the human race is **the ability to evolve.**

This is no truer than in the financial world. The banking world we know today is far removed from that of ancient Babylon where merchants offered grains to farmers to transport goods from one town to another. This has largely been as a result of the technological developments over the centuries. The latest of such disruptions is Financial Technology. It is considered to be the future of finance and it is being embraced world over. But like all new developments, it raises regulatory concerns which have been unaddressed so far.

What is Fin-tech?

Financial Technology or "Fin-tech" as it is fondly known among its enthusiasts is , at its most basic level, technology that aims to make financial products more efficient and more widely distributed with lower headcosts so as to compete with traditional financial institutions. Fin-tech today manifests itself in the following categories; Payments in the form of mobile payments, mobile wallets and payment apps (in Uganda, "mobile money" is the most ubiquitous of these). Another category is investment management through the use of robo-advisors (machine learning and artificial intelligence) for wealth and retirement planning.
We also see Fin-tech in fundraising through equity crowd funding platforms for access to private and alternative investment opportunities and online lending platforms. We also see Fin-tech in deposits and lending with the most known being peer to peer or market place lending. There has also emerged digital currencies such as *Bitcoin* which are growing in significance and popularity.

> *The Fin-tech players are* ***dynamic, rapidly changing and very innovative.***

Fin-tech in Uganda is still in its early stages. But like most things related to technology, it is coming and we cannot stop it. And there is no doubt that it will have a huge impact on the banking industry, bringing both challenges and new opportunities.

One of the biggest challenges is regulation. One crucial factor to the growth of any industry is regulation and Finance has always been a regulated industry. But developing an appropriate regulatory framework for Fin-tech is proving a very tough ask so far, primarily because the existing methods of regulation are insufficient to cater for this new model of business. The Fin-tech players are dynamic, rapidly changing and very innovative. This makes it hard for regulation to keep up with such a rapidly changing mode of finance.

The regulatory issues raised by Fintech.

Fintech by its nature thrives on **innovation, attacking the old** and paving way for the new.

Questions arise therefore as to the appropriate form of regulation. Currently, there are three approaches to regulation of Fin-techs world over. Some regulators favour the active approach where regulators work closely with Fin-tech companies so as to understand these developments and address any arising challenges.

Although this would foster development of Fin-tech, it creates a risk of conflicting of priorities where the regulator focuses more on the Fin-tech companies as opposed to the wider public interest. There is also the Passive approach in which, as its name suggests, the regulator does not play an active role in trying to make Fin-tech succeed but does not stand in their way either. This approach is not recommended for such a nascent and high risk sector.

The third approach is the Restrictive approach which, again as its name suggests, is loaded with a lot of bureaucracy and restrictions and is highly risk averse. This approach may however make compliance difficult and also stifle innovation. This raises a dilemma as to the appropriate form of regulation which will not stifle innovations while at the same time offering the much needed regulatory oversight and control to prevent abuse.

Who is the regulator in the first place? Fintech is an intersection of finance and technology and there is lack of clarity as to the main regulator. Is it Uganda Communications Commission to regulate? Or is it to be the Bank of Uganda? Or should a new regulator be specifically created for these, bearing in mind the nation's financial constraints?

Fin-tech raises data concerns. Data is essential to the Fintech model through online storage of customer data. This therefore comes with cyber security and privacy concerns. One such concern is that in the case where customer data is available to third party Fin-tech providers for use on their apps, who is liable in cases of data breach? These issues need to be addressed so as to create comfort in an industry that depends on the free flow of data.

There are also consumer protection issues. Fin-tech is so reliant on technology and this opens it up to hucksters and trolls (to use technology vernacular) with the aim of extracting money from both the consumers and the Fin-tech companies themselves. Others consider Fin-tech to be another technology bubble that will ultimately burst. And yet, it is well known that Uganda has no active consumer protection regime. Are Fin-tech consumers going to be left to look after themselves? What interventions are required to ensure that these are not abused?

Intellectual property rights concerns. Since Fin-tech thrives on innovation, how is such innovation to be afforded legal protection? Can a business method be patented, trademarked or copyrighted? If yes, here is the line to be drawn so as not to stifle innovation? Since the Fin-tech market is highly integrated with so many intermediaries, how are trade secrets to be protected?

Money laundering and capital controls. How does Fin-tech fit into the current Anti-Money Laundering technology? International money transfers and foreign exchange have been greatly disrupted by Fin-tech companies like Money Remit. How do our regulators keep track of these transactions conducted by mostly start-ups in different parts of the world? Uganda's efforts to regulate Fin-tech may most probably not keep up with the speed with which Fin-tech transactions evolve thereby creating a regulatory black hole.

There are also competition issues. Some large institutions have reacted to Fin-tech companies by gobbling them up in a spate of mergers and acquisitions and thereby making them part of their businesses. Other Fin-tech companies have decided to merge with one another so as to stay competitive. This raises competition law issues. How are these to be addressed?What restrictions are to be applicable?

Conclusion.

Fin-tech will be an integral part of the Ugandan financial sector in the near future and therefore requires a well thought out regulatory scheme that will cater for its idiosyncratic nature while at the same time ensuring the required control. Any realistic and effective regulatory framework should cater for the issues I have raised above.

Brian Kalule; **Partner, Bowmans - Uganda.**

11 AGENT BANKING

New frontiers in financial inclusion

In 2016, Financial Institutions (amendment Act) was passed by Parliament of Uganda. The Act allows allowed for commercial banks and credit institutions to appoint other businesses, (like supermarkets and fuel stations) as agents to provide basic services on their behalf, thus driving down the cost of reliance on bank branches and ATMS. However, the regulations to guide this amended Act are yet to be operationalized. This has been done with the hindsight of deepening financial inclusion. This is further justified by the statistics on banked and unbanked households in Uganda which shows that close to 22 percent of the households had functional Bank Accounts, majority of which are in Commercial Banks (18 percent). Analysis by residence showed that 43 percent of the households in urban areas had bank accounts while for female headed households 18 percent had Bank Accounts (UBOS 2014)

> **"Agent banking"** could be referred to as the provision of financial services through agents or third party intermediaries on behalf of the financial institution.

The Uganda bankers Association working with all its member banks and with support from the financial sector deepening Uganda, consultative group to assist for the poor and abi Trust have proposed a roll out a shared bank agent banking platform.

Banking today is not restricted to banking organizations alone. Several non-banking institutions from unrelated verticals like telecom and retail are stepping into this space byoffering financial products and services like mobile wallets and white-labelled loan products.

"Agent banking" could be referred to as the provision of financial services through agents or third party intermediaries on behalf of the financial institution. Agent banking is an additional delivery channel that can enhance the convenience and outreach of quality and affordable financial services particularly to the underserved in a more cost-efficient manner. Agent banking provides a cheaper alternative for financial institutions to reach out to the underserved populations. However, delivery via this channel, if not appropriately managed, can also potentially increase the risk profile of financial institution as a result of dependence on third parties, and may be disadvantaged to customers. Financial institutions, therefore, are required to effectively manage the risks associated with agent banking through the adoption of sound and prudent risk management practices.

This paper focuses on four types of agent banking delivery channels:

1. **Point of Sale (POS)-enabled bank agent –** This is an agent managed by a bank that uses a payment card to identify customers.
2. **Mobile phone-enabled agent –** This is an agent managed by a bank that uses a cell phone to identify customers.
3. **Mobile wallet –** This is an agent that is often managed by a telecom, uses a cell phone to identify customers, and provides store-of-value accounts called mobile wallets that are backed by bank deposits. Customers can use mobile wallets to send, receive, and store electronic monetary value. For this analysis, we consider them a store of value account that provides a useful comparison for a savings account directly provided by a financial institution.
4. **Bank-provided account linked to a mobile wallet** – This is a bank account that is linked to a mobile wallet. The bank does not manage the agent and pays a fee to the telecom for deposits and withdrawals.

It's envisioned that clients will transact more with greater proximity to agents.Many a times financial institutions charge for withdrawals and transfers, but do not charge any account opening fees, monthly fees, or deposit fees, these tend to be barriers to uptake among the poor. There also additional costs incurred by the broader financial system, including additional cash management costs transferred to branches or agents when transactions move outside the branch.

BENEFITS OF AGENT BANKING

Agent Banking Systems Are Cheaper to Operate Than Branches

It has been argued that agent banking systems are up to three times cheaper to operate than branches for two reasons.

1. First, agent banking minimizes fixed costs by leveraging existing retail outlets and reducing the need for financial service providers to invest in their own infrastructure. Although agent banking incurs higher variable costs from commissions to agents and communications, fixed costs per transaction for branches are significantly higher
2. Second, acquisition costs are lower for mobile-enabled agents and mobile wallets.
   By using mobile phones instead of payment cards, mobile wallets and bank accounts linked to a mobile wallet are able to acquire customers at less than 70 percent of the cost of a branch or POS-enabled agent. In some instances, mobile wallets may also benefit from lower-cost Know Your Customer requirements, such as the elimination of requirements to provide photographs and photocopies of documents.

Costs Are Incurred Only If Transactions Are Realized

In an underutilized branch, fixed costs are distributed over a smaller number of transactions, resulting in significantly higher costs per transaction. Agent banking systems, on the other hand, receive a commission only if transactions are realized. If delivery channels are utilized at 100 percent of their capacity, total costs per deposit transaction will be two to four times higher in a branch than with an agent channel. If delivery channels are utilized at 50 percent of their capacity, total costs per deposit transaction will be three to eight times higher in a branch. As long as the agent sees enough transactions to be incentivized to provide the service, capacity utilization has little effect on an agent's cost structure for the financial service provider.

Agent Transaction Platforms Benefit from Additional Transactional Revenue Sources

By bringing the channel closer to the client, agent transaction platforms may also benefit from additional revenue associated with transactions acquired by the agent, such as person-to-person transactions and bill payments. Although customers can conduct these transactions in a branch, proximity may increase their willingness to pay for these services and increase the number of transactions conducted through the channel. The rapid increase in the number of transactions conducted is likely the result of proximity and ease of use. This is especially relevant when serving poor customers with low-balance accounts, because it is hard for the provider to cover the operational costs of the account on financial margin alone and because the provider needs to move to a transaction-driven revenue model.

Agent Banking Works Best for Low-Balance, *High –Transaction Accounts*

As a result of lower transaction costs and a transaction-driven revenue model (rather than a float-driven model), agent banking systems are most cost effective for transactional accounts with low balances and frequent transactions. For example, an account that sees two deposits and two withdrawals per month will incur more than 70 percent fewer costs if the customer transacts through an agent rather than a branch. In addition, transactional accounts can make money off the transaction services provided, as is the case with most mobile wallets.

CHALLENGES TO THE PROFITABILITY OF AGENT BANKING

Despite the anticipated benefits that accrue to agent banking model, multiple factors remain to be analysed in terms of profitability of agent banking:

a) Banks cannot rely on agents to cross-sell financial products. As a result, in order to increase overall customer profitability, banks may need to incur additional costs in marketing and deploying sales forces, including branch employees, to cross-sell additional financial products to agent customers.
b) Back-office and technology costs may vary depending on the delivery channel, since a bank may lean towards more complex and higher-cost core banking systems than a telecom would because of increased regulatory requirements and more complex procedures and product offerings.
c) There is an assumption that fees on transactions through agents are not higher than in traditional banking channels. However, given the benefits of greater proximity, we believe there may be increased customer willingness to pay for transaction services delivered nearby.

Other Challenges with Agent Banking:

a) Financial institutions will be held responsible and accountable for the effective and continuous management of risks arising from the agent banking arrangements including financial, legal, reputational, operational, technological, compliance and money laundering/terrorism financing risk
b) There is a challenge in developing a sound control environment for agent banking with the appropriate governance processes firmly that need to be established, namely the operational management or business line, the risk management and control functions, and internal audit, each with clearly specified roles
c) The selection criteria for selection of an agent is not well defined as of now and this needs to be attended to in the regulation that are yet to be developed. The capacity of the agents might not be known to handle the financial products offered by the banks and will need a deliberate effort to enhance their capacity (systems, equipment, reporting etc.)
d) Some financial institutions might not have adequate procedures to monitor and control agent banking arrangements that may affect services delivery
e) There is a risk of financial institutions taking up fully the responsibility and being accountable for the activities and conduct of their appointed agents, including any complaints against the agents. This challenge can even be beyond the bank's mandate given the agent' core business might be quite different and co-mingling of activities can lead to abuse in some cases.

The above challenges can affect the credibility of banks, a matter of concern to both banking institutions and their regulators. Hence, banks must take care to sign up the right agents, and regularly monitor their performance.

Therefore, the paper concludes that given the objective of financial inclusion deepening objective, agent banking and its associated advantages is the way to but precaution must be taken to ensure that by bring services closer to the consumer, the risks are anticipated and managed effectively.

It will also be important that the regulations that operationalize agent banking need to be developed and made functional a matter of priority before agent banking can become a reality.

UBA Stakeholder engagement with the Justice Law and Order Sector

UBA Stakeholder engagement with KACITA

12

AGRI-FINANCING

Agri financing in uganda by the regulated financial institutions

The agricultural sector provides a base for the improvement of the livelihoodsof both rural and urban populations. In rural areasthis is achieved through the enhancement of productivity at the primary, i.e. production, level. In rural towns and urban areas agricultural products constitute the base for the creation and expansion ofvalue-adding processing industries for domestic andregional markets, and for packaging/marketing operations for both domestic and export markets.

The vastmajority of farmers operate on a very small scale,which means that the bulk of the population of thecountry currently achieves very low productivity

Financial services are essential at all stages in agricultural production, in order to optimise the rate at which more efficient operations and adoption of improved technology cantake place. The availability and efficiency of financial servicesimpact on the agricultural sector through severalphases of economic activity. These include the input/output market, and on-farm production stages. Some aspectsof these stages demand for financial services for theproduction/processing/marketing chain for agricultural products and produce, which sometimes requires a longer-term perspective given the nature of the sector.

There have been numerous policy interventions and schemes in agricultural financing undertaken by the Government of Uganda since the 1960s particularly those that had the banking industry actively involved.

Interventions for agricultural development can be broadly summarized into the establishment of institutions, the set-up of lending schemes and the application of tax incentives. Government has used public sector banks, the Uganda Commercial Bank and the Cooperative Bank to provide loans to farmers at subsidized interest rates. Some of these lending schemes were financed from the Central bank.

About 20 percent of all commercial bank lending in the 1980s was allocated to farming entities such as the Coffee Marketing Board.

These policies did not work. Farmers and cooperatives were not able to use cheap credit to modernize their farming and were unable to repay their loans. By the early 1990s, both UCB and the Cooperative Bank had been rendered bankrupt by non-performing loans.

Uganda's experience was similar to that of many other countries in Africa. The continent is littered with many agricultural finance banks that became unprofitable and required continuous budgetary support, thus necessitating their restructuring in form of privatization, or complete closure like Lesotho's Agricultural Bank and Building Society.

Since the mid-1980s several targeted credit schemes have been implemented. The Government of Uganda through the Development Finance Department (DFD) of the Bank of Uganda managed several credit programs, that supported various investment projects in the different sectors of the economy, including agriculture, agro-industry, manufacturing and the services sub sectors like education, health, and tourism/hotels.

Table showing **Credit Schemes Managed by BOU/DFD between 1986-2006/07**

Credit Program	Source of Funding
Rehabilitation of Productive Enterprises (RPE)	USAID (GOU)
Development Finance Fund (DFF)	BOU & Commercial banks
Apex I, II, III & IV	EIB (GOU)
Investment Term Credit Refinance Fund (ITCRF)	World Bank (GOU)
Export Refinance Scheme(ERS)	BOU
Cotton Sub-Sector Development Project (CSDP)	World Bank/IFAD
Crop Finance Fund (CFF)	Libyan Government
Export Promotion Fund (EPF)	GOU
Export Credit Guarantee Scheme (ECGS)	BOU /USAID (GOU)
Energy for Rural Transformation Refinance Fund (ERTRF)	World Bank (GOU)
Distressed Flower Project Fund (DFPF)	GOU

Source: Bank of Uganda

In the period prior to 2006/07, when the Development Finance Department and all its activities were transferred to the Uganda Development Bank limited (UDBL), DFD also coordinated a number of credit related programs. These included the Linkage Banking Program under the Africa Regional Agricultural Credit Association (AFRACA); the Capacity Building Program (CBP) for micro finance institutions under the Cotton Sub-sector Development Project; Research and advocacy on government programs, policies and processes from a gender perceptive under the Gender and Economic Reform for Africa (GERA) initiative of the North South Institute of Canada; Capacity Building for Rural Women Financial Intermediaries Program financed by a grant sourced from IFAD; and the DANIDA-funded Rural Financial Services Component (RFSC), which was aimed at widening financial services outreach to the rural areas.

Although these schemes yielded some individual successes, they have not transformed agriculture in this country. Agriculture valued added per worker measured at constant 2005 US dollars, has remained very low, despite Uganda's favorable resource endowments, increasing only marginally from an average of US$ 212 in the 1990s to an average of US$ 219 in the past five years, according to the World Bank's World Development Indicators.

Public support to the agriculture sector over the decade to 2015 has also included tax exemptions and subsidies, including the current Agriculture Credit Facility (ACF) that primarily targets value addition in agriculture and provides for a maximum interest rate of 12 percent using budgetary resources.

The fiscal incentives have included:

i) tax exemption on income earned by financial institutions lending to agriculture that was introduced in 2006/07;
ii) income tax exemptions for new rural agro-processing investments; and
iii) zero rating for VAT on most agricultural inputs and services. Various studies including Agriculture Finance Year Book 2015, have demonstrated that these tax incentives did not result in any significant gains to farmers in the form of either reduced input prices, or an increase in lending to the agriculture sector. Instead they benefited mostly the banks and importers while denying government revenues; and as a result, Government embarked on eliminating many of these tax incentives in the financial year 2014/15.

According to the Agricultural Finance Year Book 2015, the features characterizing agricultural lending n leasing in 2014, include:

Lending to agriculture has continued todemonstrate an upward trend, as for theperiod since 2010. Unlike in 2012 and2013, when the increase was attributedto substantial lending for marketing, in 2014 the increase has mainly resulted fromincreases in lending for both productionand processing, with lending for marketing following closely.

Since 2007, the percentage contribution of total agricultural lending to total bank lending has shown an upward trend. However, in 2014 this contribution reduced to 10 percent, a decrease of 1 percent from 11 percent in 2013

For successive years, 2011, 2012 and 2013 leasing volume by value has continued to decline. In 2014, leasing for the acquisition of agricultural machinery contributed 1 per cent of total agricultural lending. Although this is an increase from 0.1 percent in 2013, the change is hardly significant compared to the substantial increase observed in 2011, when there was an increase of over 21 percent in 2011. Even so, leasing in that year contributed only 3 percent of total agricultural lending

Total agricultural lending by regulated FIs and MDIs between 2007 and 2014 in bn of UGX

Total Agricultural Lending (Years)	1st quarter	2nd quarter	3rd quarter	4th quarter	Annual Totals
2007	86	84	108	172	450
2008	92	73	118	142	425
2009	69	57	86	79	291
2010	69	72	73	139	353
2011	97	104	191	174	566
2012	156	139	223	181	699
2013	189	193	210	245	837
2014	154	263	228	231	876

Source: Bank of Uganda Supervision Function and individual financial institutions

The table above shows that from 2007 to 2009 agricultural lending significantly and continuously declined. Since 2010 the trend has however, remained upward throughout to 2014. In 2011, agricultural lending increased by 60 percent from UGX 353 bn in 2010 to 566 bn in 2011. In 2012, agricultural lending increased further by 23 percent from UGX 566 bn in 2011 to 699 bn in 2012.

In 2013, agricultural lending continued to exhibit an upward trend and increased by 19.7 percent from UGX 699 bn in 2012 to 837 bn in 2013. In 2014, agricultural lending increased by only 4.6 percent from UGX 837 bn in 2013 to UGX 876 bn in 2014.

It is important to note that although total lending by financial institutions has continually increased, this has not translated into a similar increase in the overall contribution of agricultural lending to total bank lending. Indeed, this marginally declined from 11 percent in 2013 to 10 percent in 2014.

Commercial banks remain the biggest contributors to agricultural lending, accounting for 93 percent of the total amount lent to the agricultural sector in 2014 (as in the preceding years, since 2007). They are followed by Tier 3 MDIs (4 percent) and Tier 2 credit institutions (3 percent), in that order. Agricultural lending has mainly been to the following activities: Agricultural Production; Agricultural processing; agricultural marketing and agricultural leasing.

Factors and Issues that affect agricultural financing

Access to information:

Suffice to emphasize here that all agents in the agricultural sector - farmers, traders, and processors – need information about profitable production and marketing opportunities to serve domestic and foreign markets. Entrepreneurs often do not have sufficient resources to bear the cost of acquiring good information. Moreover, they may not be able to recover the costs through returns on investments because innovators tend to quickly lose their competitive advantage when others learn from their example. Financial institutions need this same type of information in order to evaluate applications for loans. They also help to disseminate information to their clients. Eventually a credit bureau may be useful to facilitate the sharing of information. Some types of information generation activities, such as agricultural extension, have strong public goods features that justify the use of public funds.

Human capital in rural areas:

The limited managerial capability of subsistence farmers is well known. This affects their ability to efficiently operate their enterprises and the member-owned organizations in which they participate. This is a particularly serious problem for women who make up a large share of the rural workforce and do much of the farming. Public investments in improving human capital will contribute to improved agricultural productivity, to creating clients for financial institutions who are better prepared to use their products and services, and to rural people better prepared to manage their member-owned organizations.

> *It would be useful to analyze the future demand for bank personnel by skill level...*

Trained banking employees:

Financial institutions need personnel trained in agriculture, finance, accounting, management information systems and other fields. These skills are scarce and salary levels are high in Uganda compared to the size of small loans that are best suited to poor people. This situation contributes to high interest rates on loans. Moreover, it is expensive for financial institutions to handle the small savings and deposit accounts of poor people. It would be useful to analyze the future demand for bank personnel by skill level and evaluate if the projected evolution in supply will be adequate, or if special programs should be created to train the needed personnel. The financial sector also needs an information system to search for and disseminate information about training materials and opportunities

Establishing branches of financial institutions:

Increasing rural outreach will depend importantly on the ability of financial institutions to profitably expand their branch networks. Careful analysis is needed to identify barriers that impede branching and make it expensive. For example, these might include banking regulations that are more appropriate to urban than to rural operations. The poor quality of rural infrastructure is problematic. Recent major improvements in the cellular phone system may pave the way for cost-reducing innovations in transferring information and data between branches and head offices, thus permitting improved managerial oversight. One important benefit that this would convey is the possibility of lowering the costs of operating rural branches, since good communication permits these offices to be staffed by more junior staff

Land tenure system and productivity of the subsistence farmers:

The land tenure system in different parts of Uganda affects agricultural financing. Lack of collateral and fragmentation of the land into unviable entities is just part of the complex challenge that needs to be addressed. Most of the farming community are basically subsistence and therefore making it unviable to produce for the market on large scale and thus affecting the profitability of farming as a business.

Lessons:

Agriculture in Uganda is dominated by small holder farmers, of whom two thirds are engaged in subsistence agriculture, according to the 2014 Uganda National Population and Housing Census. Therefore the agriculture development strategy must focus on the small holder farmer. Any risk-sharing model for financing must be based on a clear understanding of the profile and origins of the risk. In this case, resolving what continually constrains the modernization of agriculture and what makes small holder farming very risky for financing should be addressed. Smallholder farmers face a myriad of constraints to modernising their farming, of which lack of financing is not necessarily the most important. Most smallholders produce very little surplus, beyond their own needs for consumption, which can be marketed. Furthermore, the vulnerability of agriculture to the weather, pests and other hazards means that surpluses cannot be produced with any degree of reliability. In these circumstances, agriculture assumes a very high risk premium, and borrowing money to purchase agricultural inputs is very risky for farmers, and they will unavoidably struggle to repay loans.

Modernising smallholder agriculture in Uganda requires a holistic set of interventions. The first priority should be to assist farmers to increase their output without exposing them to greater risks. There is evidence from agricultural projects that if smallholder farmers are given advice on the adoption of good agricultural practices, such as better seeds, optimal crop spacing, weeding, post-harvest handling etc, substantial increases in yields per acre can be achieved, even without the application of purchased inputs such as fertilisers. This would allow farmers to produce more marketable surplus and thereby generate

cash incomes. The next step would then be to start applying modest amounts of purchased inputs such as fertilisers, to increase yields further.

Luckily, we are not short of demonstrable projects in the Uganda and elsewhere that have markedly improved yields per acre and income of the farmers by providing this sort of comprehensive support. The 2015 Agriculture Finance Year book for Uganda provides an assessment of one such pilot by the One Acre-Fund in Kamuli district. The main challenge facing agricultural policy is how to scale up the successes of individual projects to smallholders throughout the country. The key to delivering the interventions needed to modernize agriculture are effective, nationwide agricultural extension services. We also need to strengthen the rural infrastructure, especially the rural feeder roads, and provide the necessary support for private sector-led contract farming.

Once the above interventions are effected and farmers are able to earn cash incomes from selling their produce, the risk profile of agriculture will reduce and it will become possible to extend credit to them on a sustainable basis, although it is unlikely that commercial banks, given their cost structures, will be the most suitable financial institutions to do this. Instead financial institutions which specialize in small savings and loan facilities, and which have strong local roots, are better suited to delivering rural finance on a sustainable basis. Mobile banking and leveraging technology may also be able to contribute to solving market information deficiencies and delivering financial services in a more cost effective manner. A key question is whether rural finance can be provided on a purely commercial basis, or requires some degree of subsidy to offset the undoubtedly higher risks involved. Answers might not be readily available to this question.

Implementing a holistic set of interventions, Government resources should prioritize what it can do best and what the market cannot provide: the provision of public goods that benefit the majority of the small holder farmers such as policy, strengthening land rights, rural feeder road infrastructure, research and extension services, and supporting the strengthening of the ware house receipt system.

Tax incentives and subsidies as we have evidently seen are the least optimal way of utilizing public resources. In a bid to lower the risk profile of agriculture and incentivize agricultural financing, government is introducing an agriculture insurance scheme. It would be prudent that publically funded insurance scheme should mainly cover systemic risk faced by the majority of farmers such as a general epidemic or extreme weather conditions.

Finally, the historical evidence with state-run agriculture financing mechanisms – risk sharing schemes or development banks on the African continent, is instructive that if any such financing institution or scheme is to efficiently support the development process, it must be managed on commercial principles.

aBi CLEAN TECHNOLOGY FUND

Introduction:

Studies confirm that with a very high population growth and a continued dependence on agriculture as a driver of economic growth and livelihoods for its mostly rural populace, Uganda is vulnerable to climate change andland degradation. Productivity in key sectors such as coffee and maize already show signs of being impacted.

To mitigate against further declines and to adapt to climate change, aBi integrates green growth in its support to agribusiness in Uganda. Most agribusinesses in Uganda do not have the capacities to adopt green growth measures and this has prompted aBi to extend both technical services and financing to overcome that. aBi's Clean Technology Fund has been established to finance sustainable land management initiatives, efficient energy solutions, the use of renewables, environmentally friendly waste management, efficient water use and soil moisture management, and other climate smart practices for the value chains it supports.

Objectives: To promote financing for demonstration, deployment and transfer of clean, sustainable and efficient technologies that have the potential to significantly enhance the resilience of agribusinesses to adapt to and/or mitigate climate change and declines in land productivity. The Fund will:

a) Provide incentives to investors and businesses to demonstrate and adopt technologies for the above, as an integral part of their business;
b) Realize environmental and social benefits that contribute to sustainable development;
c) Align with other efforts being made to respond to Climate Change, Green Growth and Climate Smart Agriculture opportunities
d) Integrate aBi services through the offer of mixed instruments to agribusiness partners;
e) Share experiences and lessons learned in responding to climate change challenges and disseminate the same.

Examples of possible affirmative value chain interventionsin aBi are:

aBi Areas of Interventions	Concerns	Investment
Crop production	Sustainable use of land and water	Climate Smart Agriculture1: water and soil moisture and nutrition management and conservation. Irrigation. Choice of crop and variety. Agronomic practice. Use of crop wastes.
Animal Production	Sustainable use of land and water. Productive use of animal bi-products.	Water and soilconservation. Use of bio-wasteand biogas. Choice of breed andanimal husbandrypractice. Feeds andnutrition.
Agro-processing	Reliance on fossil fuels. CO2 emissions. Inefficient energy use. Effluent and air Quality management	Biogas, bio waste, solar and other renewables solutions. Waste minimisation and management. Energy optimising production. Efficient transport. Compliance with standards (voluntary and formally regulated).
Inputs supply	Environmental Pollution. Health and safety.	Appropriate labelling and packaging. Education. Efficient application of chemicals and fertilisers andadoption of alternatives. Waste minimisation and management. Sensitization, training and safety.

About aBi Finance:

aBi Financeis the investment arm of aBi Trust and aims to enable the Trust meet its programme activities in a sustainable manner by offering; Lines of Credit, Agricultural Loan Guarantees, Construction Guarantee Loans and Clean Technology Fund, to stimulate lending to Agriculture through Financial Institutions.

Contacts: 031-2-351600 **Website:www.abi.co.ug**

aBi Clean Technology Fund

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BANCASSURANCE

MAKING IT THROUGH THE MINEFIELD

Faith Ekudu, *Uganda Insurers Association.*

In June 2017, Mr. George Okotha, Director Operations, Insurance Regulatory Authority of Uganda (IRA) announced that the long awaited Bancassurance Regulations will passed in July 2017. He made this announcement at the 2nd Bancassurance Forum held by Uganda Insurers Association (UIA) in Kampala.

This news was, understandably, received with great excitement given that the market has been eagerly anticipating amendments to the Financial Institutions Act (FIA) since 2011 and now for the Bancassurance regulations since February 2016.
Speaking at the same Forum, Ms. Miriam Magala, Chief Executive Officer, UIA said "We need to streamline consumer protection guidelines for our mutual clientsas well as decide the model(s) between the partners. For example, if it is a profit sharing arrangement, the bank have a more involved role from product development to sales and marketingwhereasif it is a referral system, the bank may only need to act as a referral point for all insurance business."

Ms. Magala's sentiments are in line with the opinions expressed by Mr. Mark Johnson, RGA Reinsurance and Mr. Watson Macharia, Llyods Africa Market at the same Forum. These experts agree that the role of agents and brokers will change, products need to be bought and not sold, banks need to critically look at their multi-channel distribution capabilities and the only way forward is to be innovative in order that products meet the complex needs of the more sophisticated mutual client.

The question then becomes, what do banks-need to take into account in-order toarrive at a win-win situation for both for the bank and for the insurer?

Should the banks consider this as a feasible additional stream of income?

Definitely! According to the TechNavio Report 2013, the global bancassurance market is a sizable and increasingly important channel for protection products, predicted to expand at a compound annual growth rate (CAGR) of 5.98% from 2014 to 2018. Success in bancassurance has been registered in Spain, Italy, France and the Benelux countries and particularly in Asia. EY in an Asia Finance article indicated that bancassurance is now a proven model in Asia and there have been several successful partnerships such as the region-wide partnership between Standard Chartered and Prudential whereby the bank delivers the insurer's life products on a preferred basis. This partnership was renewed in July 2014 for an additional 15 years. There was also an exclusive bancassurance venture launched by AIA and Citibank in December 2013 that encompasses 11 markets in the Asia-Pacific region for a 15 year period and a DBS and Manulife distribution arrangement agreed to in 2015 covering Singapore, Hong Kong, mainland China and Indonesia.

With respect to Africa, we have generally seen a move towards the adoption of bancassurance particularly in Angola, Côte d'Ivoire, Ghana, Kenya, Mozambique, Nigeria, South Africa, Tanzania Zambia and Uganda as banks and insurers critically look at the benefits of forming these partnerships.

Despite all this progress, it is important to note that bancassurance has not been successful across the board. For example, in the UK, although there was a market share of close to 30% in the early years, it has shrunk to 10% or less in recent years largely because of mis-selling.

What then remains fundamental is that the agreements that the insurer and banker arrived atare in the clients' best interests and are built with a long term relationship in mind between the insurer and the bank. This agreement will in turn influence product offering, training, sales force requirements and reward systems for the staff and parties involved.

What kind of regulatory capital investment would the banks be looking at?

Close to nothing- actually. The bank will be used as a distribution channel for insurance products and will therefore not need to invest any additional capital on their end. The only costs will largely stem from licensing fees (to be a bancassurance agent and for the staff assigned to do the work- that is the principal officers and specified officers) as well as training of staff in insurance and shared costs of marketing- where agreed.

Depending on the level of system integration, there might be the need to invest in upgrading or creating more integrative systems to ease customer service, hiring additional human resource and deploying marketing campaigns.

What are the most commonly products sold through this channel?

Globally, Credit related Insurance (for example Mortgage and Loans), Home Insurance, Risk Life, Retirement products, Investment Life products and Personal Motor Insurance. In the Middle East and Africa, we see additions of Credit Insurance- Cards and Accident Insurance.

What are the key success factors for the banks?

The customer and their needs will forever be at the core of any product/service being provided. That said, it is important that time is taken to profile and segment customers, customize product offerings- including the value proposition to the customer, bank and insurer-and determine the best methods to get the product to the client and provide client support throughout the contract period.

Investing in training, having dedicated sales teams in place and rewarding the right behaviour will also be critical to the success of this partnership.

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FINANCIAL DEEPENING
& INCLUSION OF RURAL UGANDA

Key challenges faced by government in accelerating financial deepening and inclusion

During the 2016 US presidential campaigns, Hillary Clinton ran with the mantra- 'we need to build an economy that works for everyone, not just those at the top'. This sentiment could not be more true in Uganda where the richest 10 percent of the population enjoys 35.7 percent of national income, while the poorest 10 percent claim a meager 2.5 percent and the poorest 20 percent have only 5.8 percent (Oxfam in Uganda Inequality Report 2017). This appalling inequality is what inspires this paper to dig deep into the root cause of this staggering evil.

> "'The Future Of Banking' must envision an inclusive, deep and widely accessible banking system....

The banking sector is a central player in economic growth and productivity since it is a conduit through which finances are distributed. As such, 'The Future Of Banking' must envision an inclusive, deep and widely accessible banking system so as to promote balanced capital distribution ergo eradicating the poverty scourge.

The objective of this paper is to make findings on the prevailing status of Financial Inclusion in Uganda and point out pitfalls in the current attempts to extend financial services to the large hitherto un-served population of the country while making recommendations.

Status of Financial Inclusion in Uganda

Although World Bank records show that Uganda's overall Domestic Credit to GDP ratio over the past ten years hasbeen an abysmal average of 15 percent, Uganda continues to do outstandingly well per its commitments under the Maya Declaration and Sasana Accord.

The status of financial inclusion has overtime improved with an overall, 85 percent of the adult population financially included, an improvement from 70 percent in 2009 and 38 percent in 2006 (Bank of Uganda Report on Financial Inclusion 2014).

This improvement was mainly driven by mobile money financial services whose accounts now stand at 55 percent (Uganda Bureau of Statistics Statistical Abstract 2016).

According to the World Bank, the percentage of banked population though relatively stable, is still low ranging between 18-21 percent.

However the reality on ground is that there is still a large economic gap and financial services are still in the hands of the few partly because of the following challenges.

High costs of accessing financial products

The Economic Forum Global Competitiveness Report (2016-2017) ranked Uganda in the 120th position out of 138 states in affordability of financial services. Central to the cost of accessing financial products is the interest issue. The World Bank reports that the population has shied away from banks mainly because of their increasingly stringent conditions for borrowing occasioned by worsening quality of loans that had reduced private sector credit by 1.6 percent by September 2016. As at the end of June 2016, commercial bank lending rates averaged 23.54 percent and banks have come under pressure for offering high and prohibitive lending rates to the private sector. Although in April,BoUreduced the Central Bank Rate (CBR) by 0.5 percent points to 11 percent, this still remains a relatively high figure that will consequently force the conventional commercial banks to charge a higher interest rate to the public that wishes to obtain credit. A further reduction of the CBR and fast tracking of interest-free Islamic banking products' roll out could help alleviate this predicament.

The stark Rural-Urban contrast

According to Uganda Bureau of Statistics, Uganda's rural population now stands at 85 per cent yet formal inclusion is more prevalent in the urban areas compared to rural areas. It is therefore no wonder that the incidence of poverty remains far higher in rural areas, at 22.8 percent of the population as compared to urban locations with 9.3 percent (Oxfam in Uganda Inequality Report 2017). The BoU further posits that a meager 11 percent of credit in Uganda is disbursed to the rural economy regardless of the fact that our largely agrarian economy derives its life line from these long forgotten villages. There are fewer bank branches in villages than in urban areas which greatly affects the way credit is accessed. This is alluded to, among others, the hardship in terms of operational costs required to set up base in these places with poor infrastructure. In this regard the government is applauded for its aggressive infrastructure venture to make such parts more accessible. However, tax incentives for financial institutions that open up branches in rural areas could go a long way in incentivizing deep penetration of villages by banks, consequently improving access to credit therein.

ANNUAL BANKERS CONFERENCE
FINANCIAL DEEPENING & INCLUSION OF RURAL UGANDA

Informal sector

In Uganda, a significant amount of business is conducted informally. According to UBoS 2014, over 50 per cent of GDP is ascribed to the informal sector, yet the World Bank estimates that only 1 in 10,000 entrepreneurs in Uganda is able to successfully obtain credit. This is attributed to the fact that many of these informal businesses do not easily satisfy the requirements of the formal financial sector. Banks require proper registration in order to open business bank accounts and disburse loans. Since registration fees are often prohibitively expensive for small business owners, and the processes for registration are cumbersome, they limit the use of such services by these businesses.

The government is therefore urged to lower business registration fees and further the extrication of registration procedures so as to encourage business formulization.

over 50% of GDP is ascribed to the informal sector...

Distress in banking sector

Constant distraught in the sector is likely to diminish public confidence in banks thereby discouraging the growth of a banked population.

Banks therefore should adhere to prudent corporate governance practices so as avoid shut downs. The BoU should also diligently execute its supervisory mandate as well as consider rescuing the ailing banks as opposed to resolution so as to consolidate public faith in the sector.

Author: ***Simon Mutungi***

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MOBILE INNOVATIONS
DRIVING CASHLESS ECONOMY

"Technology and mobile phone innovations are the major drivers of cashless transactions in Uganda yet the benefits of a cashless society are not yet perceived"

Jonathan Adengo writes

Electronic banking is likely to have a profound and visible impact on everyday decision-making. Some of the more obvious benefits are reductions in financial transactions time and cost, and a reduced need for cash which would, in turn decrease the amount of interest forgone.

In Uganda while we may not completely move to a cashless economy in the near future, the foundation has already been laid. Our neighbouring countries such as Kenya are already embracing use of cards and it's increasingly becomingconvenient as opposed to carrying cash.

The advent of mobile money in 2009 has been the biggest drive towards a cashless economy or at least the cashless payments. According to the Uganda Communications Commission, there are 23 million registered mobile phone subscribers in the country. Statistics from Bank of Uganda as at December 2016 show that there are 21 million mobile money accounts while the number of mobile money agents stands at 132,937 agents.

In April 2017, Dr. Charles Abuka, the director of Financial Stability at BoU, told Daily Monitor that "In December 2016, the total value of mobile transactions stood at Shs 43.8 trillion up from Shs 32.5 trillion witnessed in December 2015. The 21 million represents more than half of Uganda's population operating Mobile money accounts, providing an ideal platform for the generation of cashless transactions.

Banking today is not limited to banks only, several non-banking institutions ranging from unrelated verticals like telecoms are stepping into this space by providing financial products and mobile walletproducts. The advent of mobile money has driven banks to incorporate their functions into mobile money by tapping into the unbanked population.

According to Mr. MatiaKasaija (Finance Minister) in his budget speech, Uganda has 18 Million telephone subscribers and 13 million internet users. The saturation of mobile money has tapped in to the unbanked population and forced banks to forge a way forward.

However, experts say the financial system today is a product of centuries of innovation. What began as a barter economy moved throughvarious reforms in response to the limitations inherent in the evolvingsystems. Changes will undoubtedly continue to occur in response to social and technological progress. But of late contemporary discussion of likely changes has focused increasingly on the possibility of a cashless society.

The technology for such a society exits. However in Uganda the benefits of cashlessness are not yet perceived due to lack of awareness and infrastructure to support these innovations.Mr. Godfrey Kihuguru, The CEO Pentad Insurance and director at Citi bank says Uganda still has a long way towards use of cards. "In Insurance sector for instance, the low penetration has not generated to attract the cashless policy deposits "he says.

According to BoU, banks in this country either use infrastructure by international card schemes like Visa and Master Card or by Inter-Switch which are connected cross-border to their home processing centers. At the end of 2013, there were 774 Automated Teller Machines (ATMs) owned by banks and the local switch operator.

The number of Point of Sale (POS) devices is low and only found in major establishments in towns. Visa and Master Card have each provided member banks with complete communication infrastructure and access points to their network. Data Communication providers include Uganda Telecommunication Limited, MTN and Airtel among others.
The increase in Mobile and online banking led to widespread application of computer technology in the financial system. Increasingly funds are being transferred via an Electronic Funds TransferSystem (EFTS)

As it became apparent that electronic banking was here to stay, banks in Uganda have gone back to the drawing board and embraced digital revolution brought about by propulsion oftechnology. The transition to EFTS involves overcoming structural barriers such as high start-up costs as well as establishment of cooperation and communication among competing banks and retailers.

An EFTS is made up of many components, the most widely known and accepted being ATMs. Additional Integral elements are Point of Sale Terminals (POS). The POS, not ATMs are probably the keys to further progress towards a cashless society.

But to overcome this, banks today have launched Smart ATMs that can enable you to deposit and send money without using cash. These Smart ATMs can also allow you to pay bills without necessarily withdrawing or stepping into the banking hall.

Before the spread of ATMs, the most common method of obtaining cash was from tellers at bank branches. With limited banking hours of the day and the associated long lines, it was far more common for customers to endure the inconveniences associated with cheque writing than to visit a bank branch to obtain cash.ATMs made cash easier to obtain and it increasingly became the preferred method of payment.

In a recent interview with Daily Monitor, Mr. Rakesk Jha said they were going to increasingly rely on technology to reach and better serve their clients. To that effect the bank was launching 17 intelligent ATMs and also launching cash send, a new product that allows customers to send and deposit money instantly in their accounts.

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CYBER CRIME AND SECURITY

Towards a global cybersecurity regulatory framework for the banking industry: **Which way for Uganda?**

Introduction

"In the very near future, cybersecurity exercises are going to be absolutely expected of all companies by regulators." ***Michael Vatis, founding Director of the FBI's National Infrastructure Protection Center - NYC, USA (January 2016).***

According to the Institute of Risk Management, 'Cyber risk' means any risk of financial loss, disruption or damage to the reputation of an organization from some sort of failure of its information technology systems. In June 2016, the Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organization of Securities Commissions (IOSCO) released the final report Guidance on cyber resilience for financial market infrastructures ("Cyber Guidance") This Cyber Guidance was the first internationally agreed guidance on cyber security for the financial industry. The major objective of the Cyber Guidance is to add momentum to the industry's ongoing efforts to enhance financial market infrastructures' (FMIs') ability to pre-empt cyber-attacks, respond rapidly and effectively to them, and achieve faster and safer target recovery objectives if the attacks succeed. Another goal is to ensure that efforts to build resilience are similar from one country to another.

As digitization and globalization continue to change the nature of the banking industry, cyber-attacks have become more sophisticated to detect and manage. For instance, a 2013 Price water house Coopers (PwC) survey found that 93 per cent of large organizations suffered a security breach in 2012. Coupled with the changing business requirements, market pressures, expansion into emerging markets, business innovation requirements and budget constraints as a result of increasing operational costs that wipe off profitability, the challenge for managing cyber risk is significant. For example, one Bank of International Settlements (BIS) paper indicates that the UK financial sector is already spending over ***£700 million*** annually in cyber security controls. The cybersecurity issue is also being discussed at board level, with 86 per cent of banking and capital market Chief Executive Officers identifying technological advances as the trend that will have greatest impact on their businesses.

Therefore, as cyber threats evolve, it is essential that both banks and regulators build their knowledge of emerging risks so that effective regulatory and mitigation strategies can be put in place. More effective sharing of knowledge and experiences across the banking sector will support such efforts.

The Ugandan context

The Ugandan market is not immune to cyber security risk. There have been reported cyber-attacks and internet crime not just against commercial banks, but the Central Bank (Bank of Uganda) as well. A number of loopholes exist both in terms of the legal framework that is currently in place, and there is lack of harmonized regulatory guidance on a model benchmark/framework for banks to address cyber risk.

The major laws governing this area are;

The Electronic Transactions Act (ETA), 2011 among others, provides for the use, security, facilitation and regulation of electronic communications and transactions.

The Electronic Signatures Act (ESA), 2011 makes provision and regulates the use of electronic signatures. In terms of practical applicability, banks have done this through furnishing customers with unique identification codes and passwords. In simple terms, a digital signature is a way to ensure that an electronic communication is authentic. By authentic, we mean banks know who is originating the electronic communication and also know the electronic communication has not been altered since it was made. A digital signature transforms an electronic message to ensure authenticity. And to do this, it uses encryption technology.

UK financial sector is already spending over **£700 million** annually in cyber security controls.

The Computer Misuse Act, 2010 makes provision for the safety and security of electronic transactions and information systems; seeks to prevent unlawful access, abuse or misuse of information systems, and makes provision for securing the conduct of electronic transactions in a trustworthy electronic environment.


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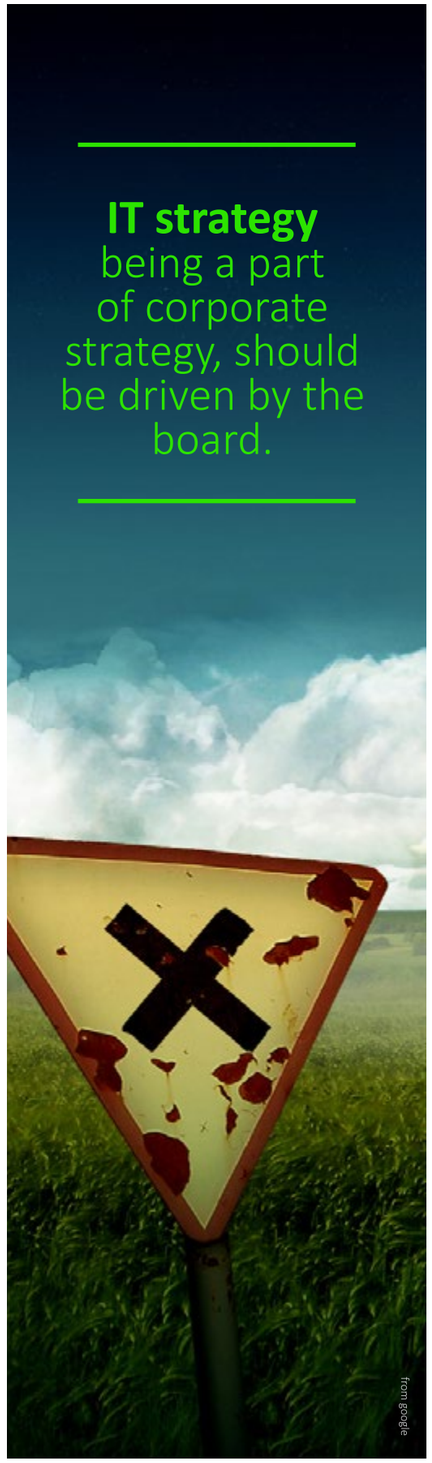
The Anti-Money Laundering Act, 2013 provides for the prohibition and prevention of money laundering, establishes the Financial Intelligence Authority in order to combat money laundering activities; imposes certain duties on institutions and other persons, businesses and professions who might be used for money laundering purposes; makes orders in relation to proceeds of crime and properties of offenders; provides for international cooperation in investigations, prosecution and other legal processes of prohibiting and preventing money laundering; designates money laundering as an extraditable offence; and provides for other related matters. From a cyber-security risk, cyber platforms such as online banking can be used to facilitate money laundering.

However, all these laws are of a general nature and do not capture some of the major specific nuances that apply to the banking industry, hence the need for a harmonized cyber security framework for the banking industry as a minimum standard to guide banks in terms of regulatory compliance requirements for effective cyber security risk management.

> *"...entities in the banking sector should establish cybersecurity strategies and frameworks tailored to their **nature, size, complexity, risk profile, and culture.***

Conclusion

In a nutshell, cyber threats and vulnerabilities are evolving rapidly and thus call for a synergistic approach involving all stakeholders within the banking system. Basing on discussion above, entities in the banking sector should establish cybersecurity strategies and frameworks tailored to their nature, size, complexity, risk profile, and culture. Some international standards such as the "G7 Fundamental Elements of Cyber Security for the Financial Sector" emphasize periodic review of banks' cybersecurity strategies and frameworks regularly and when events warrant—including cyber strategy/framework governance, risk and control assessment, monitoring, response, recovery, and information sharing components to address changes in cyber risks, allocate resources, identify and remediate gaps, and incorporate lessons learned.



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Recommendations

There is need for creation of a real-time alert database. According to KPMG, lack of a sophisticated threat intelligence scheme is one of the key reasons that banks are unaware of eminent cyber-attacks. Comparatively, the European Central Bank (ECB) now requires banks to submit information on cyber threats on real-time basis. The aim is to collect information on major cyber incidents, analyzing patterns and warning other banks of emerging threats. Bank of Uganda can create a similar framework under its regulatory mandate.

There is need to develop and further improve cyber-stress testing. Presently, many banks do not run test the cyber-risk of their systems by means of advanced cyber-attack simulations. The matter is not helped by the scarcity of such sophisticated ICT skills in the local market. This can be cured by benchmarking and external partnerships. The Bank of England's initiative of stress testing the cyber defenses of the country's big banks by carrying out "ethical hacking" exercises is a model example. Similar periodic tests should also be juxtaposed on the East African payments system.

There is need to establish a cybersecurity strategy and framework tailored to specific cyber risks and appropriately informed by international, national, and industry standards and guidelines. This should be adopted by all the banks operating in the market to augment the consumer protection guidelines, and support the integrity of digital payments while guaranteeing confidentiality and cyber security. Parliament should be lobbied to enact the Data Protection and Privacy Bill.

Banks should define and facilitate performance of roles and responsibilities for personnel implementing, managing, and overseeing the effectiveness of cybersecurity strategies and frameworks to ensure accountability. There is need for stronger corporate governance interventions at board level to cope with the ever-changing dynamics of cyber risk. As the Deputy Governor of the Reserve Bank of India, Harun R Khan noted in July 2015, "IT strategy being a part of corporate strategy, should be driven by the board. All the aspects of technology management namely, cost, human capital, hardware and software, vendors and service providers, risk management including disaster recovery should be factored in the IT strategy of the bank. The Chief Information Officer (CIO) in a bank

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"CYBER SECURITY: EMERGING RISKS AND THREATS TO ONLINE TRANSACTIONS"

Internet banking and the legal regime in uganda

Online banking, also known as internet banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website. The online banking system typically connects to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services.

This is a clear reflection of technological revolution which has changed the global balance of economic and political forces and created a new world where information is stored and transmitted not on paper but electronically and is accessible by means of a monitor screen.

An individual is thus accorded the opportunity to perform banking activities in the comfort of their home via the internet whereby they can ably perform all routine transactions such as account transfer, balance inquiries, bill payments and can even use credit card applications

The Electronic Signatures Act 2011(ESA) provides a framework through which electronic communications can be protected. The ESA provides a legal framework for using digital signature as security technology meant to ensure the integrity, authenticity and non-repudiation of electronic communications.

> ....Act 2011(ESA) provides a framework through which electronic communications can be ***protected.***

Banks have done this through furnishing customers with unique identification codes and passwords. In section 2 of the ESA, a digital signature is defined to mean a transformation of a message using an asymmetric cryptosystem such that a person having the initial message and the signer's public key can accurately determine:

a)Whether the transformation was created using the private key that corresponds to the signer's public key; and

b)Whether the message has been altered since the transformation was made.In simple terms, a digital signature is a way to ensure that an electronic communication is authentic. By authentic we mean you know who is originating the electronic communication and you know the electronic communication has not been altered since it was made.

A digital signature transforms an electronic message to ensure authenticity. It is a particular subset of electronic signatures which are a broader form of electronic confirmation of authenticity. For a digital signature to do this, it uses encryption technology.

An electronic signature must thus be able to serve the same essential functions as a handwritten signature and these are; authentication, integrity and non-repudiation which are elements that indicate the presence of trust.This raises questions about the Bank's chosen digital platform to avail this service to its customers.

Laws governing internet banking in uganda

The Electronic Transactions Act, 2011; which provides for the use, security, facilitation and regulation of electronic communications and transactions; to encourage the use of e-Government services and to provide for related matters.

The Electronic Signatures Act, 2011; which makes provision for and to regulate the use of electronic signatures and to provide for other related matters.

The Computer Misuse Act 2011; which makes provision for the safety and security of electronic transactions and information systems; to prevent unlawful access, abuse or misuse of information systems including computers and to make provision for securing the conduct of electronic transactions in a trustworthy electronic environment and to provide for other related matters.

The Anti-Money Laundering Act, 2013; which provides for the prohibition and prevention of money laundering, the establishment of a Financial Intelligence Authority and a Financial Intelligence Authority Board in order to combat money laundering activities; to impose certain duties on institutions and other persons, businesses and professions who might be used for money laundering purposes; to make orders in relation to proceeds of crime and properties of offenders; to provide for international cooperation in investigations, prosecution and other legal processes of prohibiting and preventing money laundering; to designate money laundering as an extraditable offence; and to provide for other related matters.

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Digital platforms, cyber security & data protection;

A digital platform is defined as a software or hardware of a site. Since internet banking like its name suggests is run on the internet / worldwide web, the bank is tasked with the duty of selecting or having a digital platform that powers online banking.

Security is a major concern when you are conducting business transactions electronically; more so online banking which transaction is carried out over the internet. When transacting electronically, there is a lot of sensitive information that has to be sent electronically.

The security and safety and effective functioning of online banking is highly dependent on the digital platform earmarked by the bank. This means that the bank must first protect itself as it sets out to roll out internet banking services to its customers.

This means that the bank must be logged onto a platform that is not prone to third party interference through hacks and virus attacks. A virus attack on a banks digital platform can cripple the entire bank and lead to immeasurable losses.

A few examples of the world's top 13 banking platforms include; Temenos Group AG, Strands, Nymbus, Ebanq, Apex banking, financle etc. Looking at the most popular banking platform in Uganda, Financle whose aim is to help banks to operationalize core banking transformation by providing a holistic and integrated approach.

from google

Data protection

The nature of online banking requires banks to collect and keep customer data. In addition, banks being accountable persons under the Section 6 and Second Schedule of theAnti-Money Laundering Act 2013, they are under a duty to collect and retain information obtained from customers. This principle is known as "Know Your Customer Policy" (KYC). The Know Your Customer principle obliges banks to identify applicants, before they can be accepted as customers. The question that arises is in regard to how this information collected is handled and its safety. The data that is made available online by the online customers is open to abuse and this is one of the major concerns that have emerged in the recent times.

Data is defined as information which is being processed by means of equipment operating automatically in response to instructions given for that purpose.

Because there is no express legislation for Data Protection in Uganda, the terms of data protection are dependent on the contract that the parties have entered into. The disclosure and non-disclosure of data would thus depend on that contractual relationship or the existence of a privacy policy.Others depend on the constitutional right to privacy as a safe haven for protecting their data.

Other countries, specifically the first world countries are a few steps ahead of Uganda in terms of laws on data protection. Countries like Austria, Canada, Denmark, France, Sweden and the United States have passed privacyprotection laws on data and are also signatories to the Organization for Economic Cooperation and Development (OECD), an organization which concentrates on economic development and world trade. The East African Community is yet to have data privacy protection laws in place to acknowledge the problems and security risks that arise from the fast growing digitalizing of the economy and the world market. Kenya is alive to the campaign for data protection with their Data Protection Bill, 2013, a bill yet to be passed into law. The Government of Uganda, through the Ministry of Justice and Constitutional Affairs with support from the National Information Technology Authority Uganda (NITA-U), has tried to bridge this gap by preparing a law meant to protect the privacy of Ugandans in cyberspace. The "Draft Data Protection and Privacy Bill", is aimed at protecting the privacy of an individual and personal data by regulating the collection and processing of personal information; and to provide for the rights of the persons whose data is being collected and the obligations of the data collectors and processors.

It also aims to regulate the use or disclosure of personal information and for related matters. Generally, this draft law is aimed at empowering Ugandans to have control over their personal information such as texts, images, sounds, and software.

The Bill comprehensively provides for- rights of persons whose data is collected and obligations of data collectors and data processors; and governance measures and procedures to administer, receive complaints and settle disputes.

It also provides for-guidance for data controllers and processors to protect data subjects; an enforcement mechanism that will allow individuals to enforce their rights and remedies for infringement of the rights of individuals.

The draft Bill further requires that data subjects should be informed of – whothe data controller is; the purpose of collecting the data; how long the data will be kept and any third parties to whom the data will be disclosed.

UBA signing Ceremony with Eclectics international

Computer & data security

Online transactions pose a big risk to data and computer security and therefore, Banks must ensure that the data collected from customers is secure.
In a generic sense, security is "freedom from risk or danger." In the context of computer science, security is the prevention of, or protection against,

- *access to information by unauthorized recipients, and*
- *intentional but unauthorized destruction or alteration of that information*

Hence, data security involves various measures to ensure data is stored in a safe, non-evasive way. Most banks use proprietary software which is a custom made solution. In this instance, any attempt to collect data from the bank's servers is countered by a system shutdown where the device trying to access the bank's mainframe or servers is automatically blocked. Banks have also disabled USB ports that accommodate pen drives from installing on the bank's computers.

Banks have also heavily invested in data protection by using 128-bit encryption which is the most secure and virtually uncrackable.

So, while banks themselves through due diligence might take steps to control and secure this data, it is important that legislation is enacted that provides a standardized way of handling data properly. This is why it is crucial that the Data Protection and Privacy Bill is passed into law in Uganda.

In Europe, the first steps taken towards regulating data protection were taken through the council of Europe convention 1981.This opened the floodgates to countries specifically within the European Union to enact specific laws to address the issues of data security.

In 1995, the UK, thus eventually adopted directive 95/46/EEC. This directive, required through article three, for all member states to protect the fundamental rights and freedoms of natural persons and in particular the right to privacy with respect to the processing of personal data.

The gist of this article was to compel member states, to enact or supplement on already existing legislation recognizing the right to privacy in regard to personal data. In the UK for example, although the Data protection act, 1984, was existent, it had failed to address new issues that had evolved and as such needed to be strengthened. It had been designed, to control the storage and use of data in a computer. The road leading to the 1984 Act was paved with Parliamentary Bills, Reports and White Papers concerning privacy and data protection. It finally came into force on 11 November 1987.

Uganda's data protection law will most likely mirror the UK Data Protection Act 1998 which implements Directive 95/46/EC. However, Legislators must be wary of the ambiguities which have placed the act under scrutiny.

One such ambiguity is in the definition of the term *"personal data". The Act defines it as data: -"Which relate to a living individual who can be identified–*

(a) From those data, or
(b) from those data and other information which is in the possession of, or likely to come into the possession of, the data controller, and includes any expression of opinion about the individual and any indication of the intentions of the data controller or any other person in respect of the individual.

Firstly, the effect of this seems to be that data security/protection only deals with the "living". Also, it seems to indicate that as long as data relates to a person then that data is subject to the law. So, even if a data base contains only a number identifying someone, (like a national insurance number) then that is classified as personal data.

Another aspect is the term "data controller". The Act states: -
"Data controller' means . .
. a person who (either alone or jointly or in common with other persons) determines the purposes for which and the manner in which any personal data are, or are to be, processed.

The Platform for Privacy Preferences Project **(P3P)** enables Websites to express their **privacy practices** in a standard format that can be retrieved automatically and interpreted easily by user agents.

What is the UK data protection act 1998?

The Data Protection act 1998 revolves around eight principles concerning data protection and these are the gist of this act. They propose that data should be collected in a lawful and fair manner; it should be adequate, and not excessive, accurate, shouldn't be kept longer than necessary, should be secure and shouldn't be transferred outside the EU.

However, when it comes to data security, the seventh principle will be our main area of interest. It states that all personal data shall have appropriate security measures in place. However, the DPA 1998 falls short in defining what "appropriate" measures are.

It is not disputed that a bank as a data controller should be always vigilant, and ensuring data is secure to the best of its ability. Also, it seems like the DPA 1998, places a lot of obligation on the data controller. In fact, in 1998, the European Commission forwarded a paper on the implementation of Platform for Privacy Preferences (P3P) that tried to reduce this liability by proposing that data protection be between the internet user whose data is being collected and the data controller. The Platform for Privacy Preferences Project (P3P) enables Websites to express their privacy practices in a standard format that can be retrieved automatically and interpreted easily by user agents. P3P user agents will allow users to be informed of site practices (in both machine- and human-readable formats) and to automate decision-making based on these practices when appropriate. Thus, users need not read the privacy policies at every site they visit.

In December 2007, sensitive data, including religious beliefs and sexual orientation, relating to junior doctors were accessible to anyone accessing a website of the Department of Health.

In the same month, the Driving Agency's US contractor lost a computer hard drive containing contact details of three million candidates for the driving theory test.

In January 2008, the Ministry of Defense lost a computer containing 600,000 staff records.The information commissioner's office, which has the mandate to handle data security, claims in the UK, has fined companies in the hundreds. In March, 2007 alone, 11 banks were fined for security breaches. Data controllers have had sleepless nights over the seventh principle and how to come up with appropriate security systems.

In February 2016 for example, thieves stole USD 81,000,000 [United States Dollars Eighty-One Million] form the Central Bank of Bangladesh by gaining access to an international bank messaging system called SWIFT (Society for Worldwide Interbank Financial Telecommunication).SWIFT is billed as a super secure system that banks use to authorize payments from one account to another.

This means that banks must invest heavily in data security not only to protect themselves against customer suits but to also protect the bank as whole from third party attacks. So if the safest network can be hacked, this means that banks have to be extremely vigilant and keep track of any suspicious activities on their servers/ mainframes.

Over the years, more and more ways are introduced to handle data security. And because change is inevitable, as a business grows, the risks also grow. The law, time and memorial has always held the employer vicariously liable for the acts of his employees. Most often than none, it is the employees/contractors of a company that lose data even when state of the art security systems are in place.

Ministry of Defense lost a computer containing **600,000** staff records

thieves stole **USD 81,000,000** form the Central Bank of Bangladesh by gaining access to an international bank messaging system...

This means that banks must invest heavily in data security...

The interpretative provisions set out in the Data Protection Act 1998, Schedule 1, Pt II specify that where processing of personal data is carried out by a data processor on behalf of a data controller, compliance with the Seventh Principle requires the data controller to:

- *choose an organization that offers guarantees about the security of the processing it is undertaking on the organization's behalf;*
- *put in place a written contract setting out the requirement for appropriate technical and organizational security measures and restricting processing to carrying out the data controller's instructions; and*
- *Take reasonable steps to ensure compliance with the security measures.*
  Hence, the data controller must take reasonable steps to ensure the reliability of any employees with access to personal data.

The governor bank of Uganda **Prof.Emannuel Mutebile** Unveils the new CIB brand identity.

Cloud computing and online banking

Cloud computing is another area of online banking that is affecting the application of Principle 7. It has no specific definition but it can be defined as the process of storing, accessing and sharing company data and processes remotely on the Internet.

Most cloud services are offered on a shared server basis, that is, the IT resources on a given server are shared between multiple organizations. Some companies are going down the route of signing up for non-shared cloud services that are offered on a secure basis by the likes of IBM and Unisys.

With banks and other financial organizations evolving to handle the inflow of data, the data centers too have to become more nimble to manage the influx of data and the constant flow of information across diverse environments.

Every other day, the concept of e-commerce is growing in Uganda especially in the fields of food vending and online shopping. Payments for goods and services are becoming digitized and soon enough, online banking will become the norm instead of just a reserve of the few affluent people or foreigners in the country.

Cloud computing raises various concerns like where the data collected is stored and who can access that data. Directive 95/46/EEC in Article 18 (1)[17] talks about cloud computing and states that if data is to be transmitted over a network,

"The controller must implement appropriate technical and organizational measures to protect personal data against accidental or unlawful destruction or accidental loss, alteration, unauthorized disclosure or access."

But, it would be rather difficult to control data that is in a network like the ones above. Especially, if it goes to a "third country" as provided for in Article 25 of the Directive. However, it is imperative to note that although this area is relatively new, the current law needs to be reviewed to specifically define what cloud computing is and how it can be managed.

Enforcement of data security

Data security, in its entirety is one that many find to enforce. The problems with it lie in various factors. One of them is ignorance. Most companies fail to sensitize their employees about Data Protection laws and how to be vigilant. They view it as costly to introduce training workshops yet these would have saved them thousand s of pounds in the end.

Poor password management is another problem. Weak passwords, shared passwords and unchanged passwords still plague most businesses. With current password cracking software able to decipher 10 alpha-numeric character passwords in a matter of minutes, poor password management practices can lead to a system being compromised in a matter of seconds. Account sharing is another problem as it makes a database an easy target for unauthorized access. Also, data access restriction is not looked at as well as it should.

The more people with access to personal data, the more likely there will be for a security breach. Laptops and PDA'S like and the more recent introduction of the I Pad, encourage employees to take work home or to work from anywhere. But, these can be easily lost or stolen and with them personal data can be lost at the expense of an organization.

The biggest challenge in data security comes down to interpretation. Principal seven of The Data Protection Act 1998, as already shown concerns data security. But, the problem manifests in the interpretation of what "appropriate "means. The Act does not help show what would be appropriate and what would not fit that criterion. But, over the years, various practices have been developed and these can be considered to be appropriate when it comes to data security.

Apart from policy considerations, Banks collect information or data pursuant to the directive under Section 6 of the Anti-Money Laundering Act. Banks being accountable persons are supposed to know their customers and their information details.

Some of the information banks collect includes; name, addresses, contact details. They also collect information relating to customer transactions for purposes of accountability and tracking. This is done in line with Section 9 of the Anti-Money Laundering Act. This is also known as "KYC" – Know Your Customer Policy.

Banks are supposed to establish and maintain records on customer identification, account files and business correspondences. They are also required to establish and maintain records to enable the reconstruction of transactions. the data retained by banks includes information relating to dates, amounts involved, types of currency involved, parties to the transactions and their addresses.

Data should also not be retained for longer than necessary. Principle five of the DPA 1998 makes

it mandatory for data not to be kept longer than necessary. Banks are supposed to retain data collected for a period of 10 years pursuant to Section 7 of the Anti-Money Laundering Act. This raises a question as regards data destruction after the 10 years have lapsed.

Banks are using "Data Shredding Software" to delete the information collected overtime. With a file shredder, files can be removed from any hard drive without fear that they could be recovered. There are quite a few software tools today for retrieval of deleted files under the Windows Operating System. Those tools, often referred to as "file recovery" software, and are taking advantage of the shortcoming of Windows "delete" command that we all use regularly to delete files. Actually, the "delete" operation in Windows only removes bits of information from files so they appear deleted in the Operating System. It is easy to retrieve those files using specialized file recovery software.

In order to remove, or shred files permanently from a system, the bank has to use a program that is capable of rewriting the files with random series of binary data multiple times. This process is often called shredding. That way, the actual content of the file has been overwritten and the possibilities to recover such a shredded file are mostly theoretical.

The Bank should not collect data with the hope that it may be useful one day. Hence, a data retention policy should be enacted within the Bank to ensure data is not kept for long because the longer data is kept the more prone it is to security breaches.

The concept of data retention in relation to deceased persons is another area to look into for many banks. How do the banks reconcile the concept of personal data in relation to a living person when they still have data of a deceased person in their system? What are the safeguards in place to ensure that deceased's estate in terms of the money on their account is well kept or even distributed? What if no one claims that money? What happens to that information and money at the end of the day? These are all questions a bank has to think about in this era of digital signatures and online banking.

Conclusion

Overall, although laws like the Electronic Transactions Act, 2011 have made major strides in securing online transactions, future amendments if any, need to address the pre-existing issues especially in this ever-evolving online world. After all, a law is only as good as how adaptable it is to new trends and developments in its environment. Only time will tell if the Ugandan digital laws will be able to adapt and keep up with the ever-growing world and concept that is the internet.

Recommendations

Firstly, only essential data should be collected. Principle Three of the DPA 1998, in fact provides that personal data should be adequate and not excessive. The effect of this principle is that a company collects data that is manageable. In turn, this would minimize the risk involved with personal data.

Data should also not be retained for longer than necessary. Principle Five of the DPA 1998 makes it mandatory for data not to be kept longer than necessary. Data controllers should not collect data with the hope that it may be useful one day. Hence, a data retention policy should be enacted within the organization to ensure data is not kept for long because the longer data is kept the more prone it is to security breaches.

Employees should also be well screened before they are hired. Those hired should be sensitized about data security and a policy enacted in that respect detailing what data security is and how it can be enforced and the repercussions for its breach. Care should also be taken when outsourcing. Firms should be properly vetted and appraised.

Data should be backed up regularly, and passwords changed as often as possible. It would be prudent, to review any security measures as often as possible. These measures can be in the form of anti-viruses, malware, spyware, firewalls among others. In the event of a security breach, containing the breach should be the first priority. In compliance with the breach notification law, all breaches should be reported in order to minimize losses.

In the United States, California was the first state to enact a security breach notification law (California Civil Code 1798.82). The law requires any person or business that owns or licenses computerized data that includes personal information to disclose any breach of the security of the system to all California residents whose unencrypted personal information was acquired by an unauthorized person. Eventually, other states enacted this law into their legislations.

The organization should also regularly monitor the Information Commissioner's website for guidance and watch for relevant codes of practice for data protection in relevant forms of business or other activity published, for example, by trade associations.

Most banks in Uganda, through Bank of Uganda have tried to mitigate the risks caused by online transactions by providing for additional authentication/validation based on information not visible on the cards for all on-line card not present transactions.

Most banks opt for voluntary registration for online banking where the bank's customer logs onto the Banks online platform and signs up for the service or registers for the service at the branch. The Customer must agree to the terms and conditions before they are registered for online banking. This is necessary to protect the Bank from claims of customers resulting from using the service.

This practice has been adopted by most banks, and there are terms and conditions that must be agreed to before the customer is registered for online banking and this is done by clicking on the "I AGREE TO THE TERMS AND CONDITIONS" button on the banks website. The Bank must therefore incorporate terms and conditions that protect both parties, i.e. the bank by restricting its liability and also setting down guidelines to be followed by its customers when using internet banking.

An example of the terms and conditions that the bank can include;

Registration and account management.
Browser requirements; like internet explorer 5.5 and above, Netscape 4.7 and above. A 128-bit encryption for logging into online banking.

- *Online Security;*

i) Full virus protection (customer's internet devices.)
ii) Verification of customer's identity through pin or passwords.
iii) Log in precautions like avoid using shared computers, change passwords regularly etc.

- *Privacy and policy;*

i) Bank's commitment to customer privacy,
ii) circumstances when disclosure will be made,
iii) storage of the data or information collected and its safety.

- *Service availability, website maintenance*
- *Breach of agreement and termination*
- *Governing law.*

Some of these measures include using Chip and Pin cards in the place of Magnetic strip cards as a fraud prevention measure. In addition, banks have introduced more consumer-friendly methods of curbing fraud and promoting online privacy such as introducing SMS alerts for all online transactions and allowing the customer to block his/her card also via SMS in cases of fraud.

Author: *Kenneth Muhangi*

Annual bankers dinner 2016







Annual bankers dinner 2016





17

REGULATORY OVERSIGHT

Reforms Financial Sector

BoU Governor ***Prof. Emmanuel Mutebile***

- **An Ideal framework to deliver Non-Reckless (Prudential) growth in Banking and Financial Sector**

Financial regulation has two objectives – the mitigation of systemic risk in the financial sector, and the protection of consumers of financial services. This paper dwells more on the Systemic risk facing the banking and financial sector in Uganda as from time to time experienced by the high trading banking sector in Uganda most recently case of takeover of Crane bank Uganda, which when left unmitigated, is a horrible risk factors to the consuming public.

Financial markets are vulnerable to shocks or triggers from both outside the financial system (exogenous shocks) and from within financial (endogenous shocks).

A common view of systemic risk is that the main cause is an outside event. Systemic risk, unmitigated, becomes a problem when there are very close interlinkages between different elements of the financial system especially the example of a one-off crisis that leads to the whole system to fail as was in 1995 of Barings Bank as a result of £827 million of losses racked up by rogue trader Nick Leeson.

The paper makes two major recognitions:

1. Bank of Uganda recognizes that developments in the industry is very dynamic with investors innovating new products and services(risk drivers) which must be monitored and supervised to ensure that emerging risks are identified well in advance, the private investors informed, open dialogue, and if can't be converted to business opportunities/products, be mitigated before they are occur.

2.The present risk based methodology was an advancement in financial regulation as it was embraced by the EAC, and Supervisory colleges) as well as strengthened autonomy of BoU-as the regulator ,an implication that by amendment of the financial Institutions Act BoU will be stronger and pro-active regulator, well ahead of the innovation in the sector.

Risk & Regulatory Reforms for Uganda Financial/Banking Sector(depository and Non-banking)

1.Capital conservation Demand by BoU- On a positive note, BoU made a milestone spirited demand on all commercial banks to raise capital reserve to against potential undercapitalization that on occurrence possesses a risk to the financial system to 2.5 percent of risk weighted assets (RWA) of domestic systemically important banks (DSIBs) akin to a bank 'Too big to fail'(TBTF) though with a requirement of additional quantitative limit of capital to create effective impact.

The public expects more than only capital demands, supervisory measures on DSIBs intrusive inspections and reviews, signing MoUs with the Board of Directors, calling for new capital owner, takeover of the management of one DSIB which may be severely undercapitalized. BOU need not reinvent the wheel though research is paramount, but in the interim, can benchmark with Rwanda & Kenya in the African tire then UK, US, and Indian reform in the financial system in the foreign scene.

Regulatory concern is the declared assets of financial Institution that is a function of the weightings given that most Institution in Uganda are free to Volker rule(US) and can transfer business assets to proprietary Assets to lower the Capital Reserve to be set aside from business-a case of Asset fraud.

This need to be factored in the raising of the capital reservation to lock in most of the higher capital that banks currently hold in Uganda.

2.Credit quality in the Sector

The rise in non-performing loans with most financial institutions relaxing their credit policy making them the most risky assets in the financial institutions from 4%-8.3% in 12 months period (June 2014-June 2015) the worst in history of Uganda. In a bid dish out loans, some banks sign loan contracts even with completely no collateral praying that they will payback only to be awaken with non-performing loans.

BoU should raise the percentage of the assets insured, migrate from tick-box-submit compliance and get bank floor get real work compliance with credit policy prudential norms cultivated on financial institution staff since with bank failures every institution loses a point (no sector is spared), BoU inclusive.

from google

BoU Executive Director Supervision Mrs Bagenda Justine

3. Declining profitability
Entire banking sector posted a decline in profitability worse still five actually reporting losses compared with seven the year before 2016. A considered opinion here is that these financial institutions prepare interim financial performance report, so the supervisor owe the financial sector an explanation as to why it could arrest collapsing profitability in the interim by raising a red flag to management to investigate and reverse the trend with threats of punitive measures to follow: only to wait for year to end to publish losses.
BoU should institute measure requiring financial Institutions to submit prudentially prepared financial performance reports.

4. Collapsing return on assets and return on equity
Though the paper not being foreteller of the future, as a result of the above scenario no miracle could be expected out of the above performance ratios as they are the result of the functional areas foregone. Shareholders could not reap their desired benefit from a non performing sector as portrayed above as the assets were not effectively used to yield dividends for a return to equity holders.

5. Cost of financial crisis-(DSIBs)
The enormous costs that would be associated with another financial crisis and the lack of certainty about whether these new tools would be effective in dealing with one, there is need to consider bolder, transformational options. Some other financial analysts and policymakers have noted the potential benefits to considering more transformational measures

- *Breaking up large banks into smaller, less connected, less important entities.*
- *Turning large banks into public utilities by forcing them to hold so much capital that they virtually can't fail (with regulation akin to that of a nuclear power plant).*
- *Taxing leverage throughout the financial system to reduce systemic risks wherever they lie*
  The financial sector has to lobby hard to preserve its current structure and throw up endless objections to fundamental change.

The arguments that large banks benefit society by creating economies of scope and scale. True, as it but does benefits of scale of large banks outweighing the massive externalities of a widespread economic collapse?

Major assumptions

1. Specifically BOU prohibits a bank/financial institution or its and its affiliates that owns a bank from engaging in proprietary trading, and from owning or investing in a hedge fund or private equity fund, and also limits the liabilities that the largest banks (DSIBs) can hold.

> "It is a **collective responsibility** of the whole sector to foster financial stability-traders and consumers alike.

2. Insider lending and outright fraud though, cannot be completely eliminated, has been brought to a bare minimum, Bad ethics particularly, widespread theft, fraud has to be controlled.

3. Management of the banks in Uganda is competence based and meritorious in nature and cannot be a point to blame on the collapsing banks and financial system. The paper strongly disagrees with the speculation that the economy is too small for the 24 banks to make profit since even population holding bank accounts is in the region of 4million or 33% of the 12million who are bankable-very low financial penetration. Research is required in the financial intermediation and financial product development like Islamic banking and its legislation keeping the financial sector behind in performance without limiting open dialogue like this.

4. BOU has all the tools to fulfill the its responsibility with a co-operating financial sector in Uganda to ensure financial stability with its mission to foster price Stability and a sound financial system.

Conclusion

It is a collective responsibility of the whole sector to foster financial stability-traders and consumers alike. The bill to amend the financial institution Act should be of primary concern to the all law makers to deliver a stable well-regulated financial system in Uganda. Uganda needs a body that fosters confidence in the financial services and market, hence strengthened B0U with self-regulated financial sector is long overdue.

Nonperforming assets can be best regulated by consumer credit Act with provision protecting the investing private sector not limiting the scope off small and medium sized businesses. Such sanctions as 'Name and Shame' of people with poor credit history are effective drivers of compliance by defaulting borrowers. A Set of rule regulating domestic systemically important banks (DSIBs) or end it all together is required today more than yesterday.

Onyango George

18

BIGGEST CHALLENGES

FACING BANKS IN 2017

When Moorad Choudhry, author of The Principles of Banking, was asked what's the biggest challenge facing banks right now, he said that it's ***"to stay engaged with the customer."***

Choudhry says that most practitioners, if asked that question, would say the biggest challenge is ***"capital"*** or ***"liquidity"*** because of the amplified regulations that followed the 2008 crash.

However, Choudhry says that because every financial institution has to meet certain regulatory standards these things are "necessary, but not sufficient." In other words, banks aren't going to win business simply by meeting capital requirements; they're going to win business by engaging their customers.

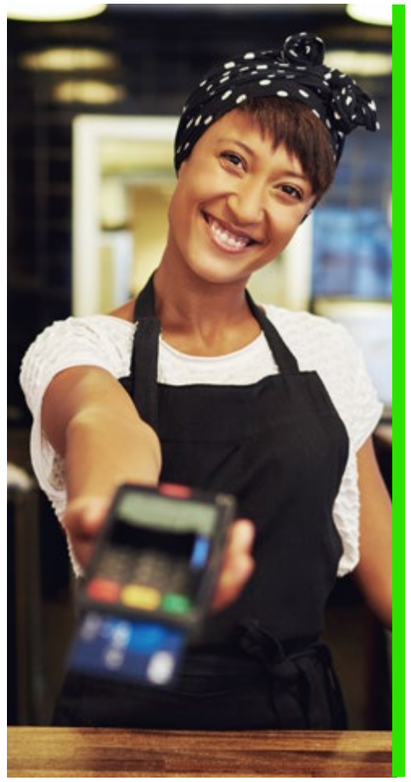
That'swhat will make the difference.

Choudhry adds, "banking is going to remain very competitive for the foreseeable future," and so the risk of losing wallet share right now is real.

KPMG echoes this sentiment in their report, "Banking Outlook: An Industry at a Pivot Point." They show how recent changes in return on equity and net interest margins mean that banks are truly at a pivot point.
As a result, KPMG says, "In our view, few mandates are more important to the banking industry right now than a relentless attention to connecting with customers as a means of building new revenue streams."

The bottom line is that banks must provide customers with what they want.
All of this opens the question: What do bank customers want?

CGI answered this question in their recent report, "Understanding Financial Consumers in the Digital Era," wherein they surveyed 1,244 consumers about banking. The report found that five items stood out above the rest:



Analyzing the Top 5 Wants

Let's briefly unpack each of these points.

1.Reward me for my business — This point is somewhat vague, but we can assume that people were thinking about rewards programs. Credit card points, discounts for local venues, and free money for opening an account all fit under this category.

2.Give me "anytime, anyplace" access to my balance — Users want convenience, and nothing is more convenient than an app that can fit in your pocket.

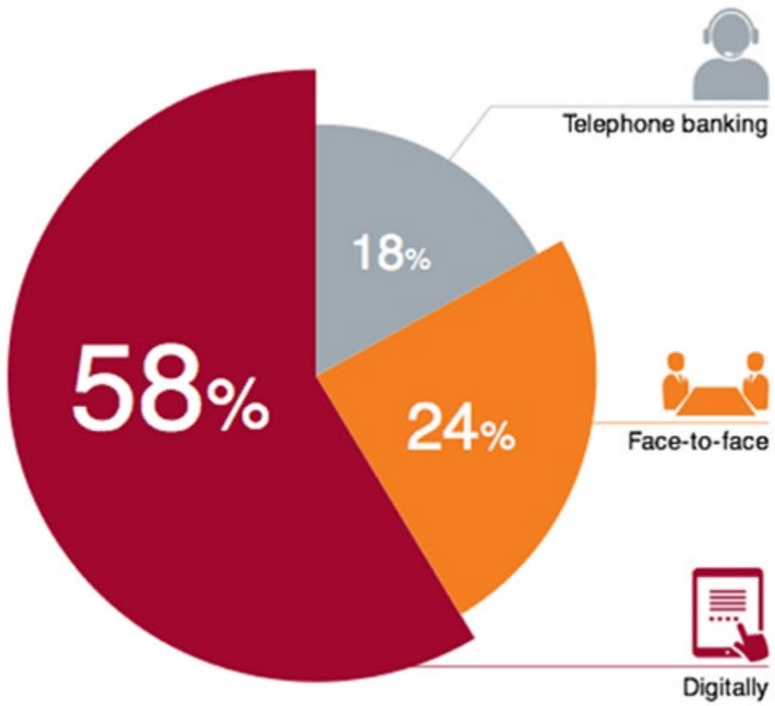
3.See me as a person — Again, this is somewhat vague, but it's almost certain that people were thinking of a personalized, consistent banking experience. Indeed, according to the report, "the majority of financial consumers want omni-channel services, regardless of age or income." Users want banks to remember their preferences.

4.Provide me with wealth-building advice — This shows that there is real potential for bankers to leverage their banking knowledge for the benefit of their users.

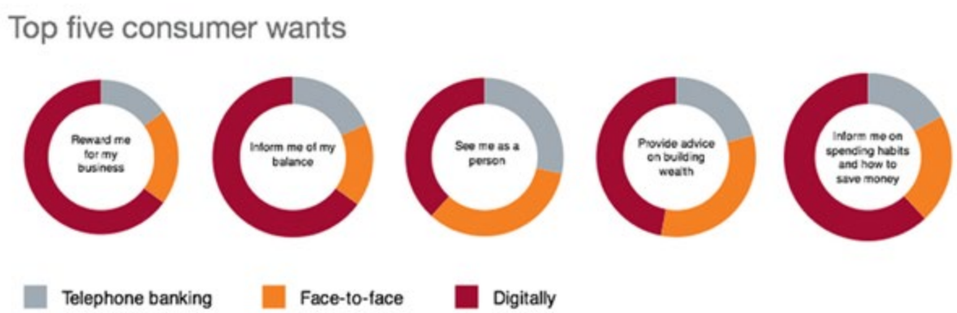
5.Show what I'm spending on and how to save — Users know that banks have access to their financial data, and they want banks to leverage that data to provide advice on how they can succeed in their financial life.

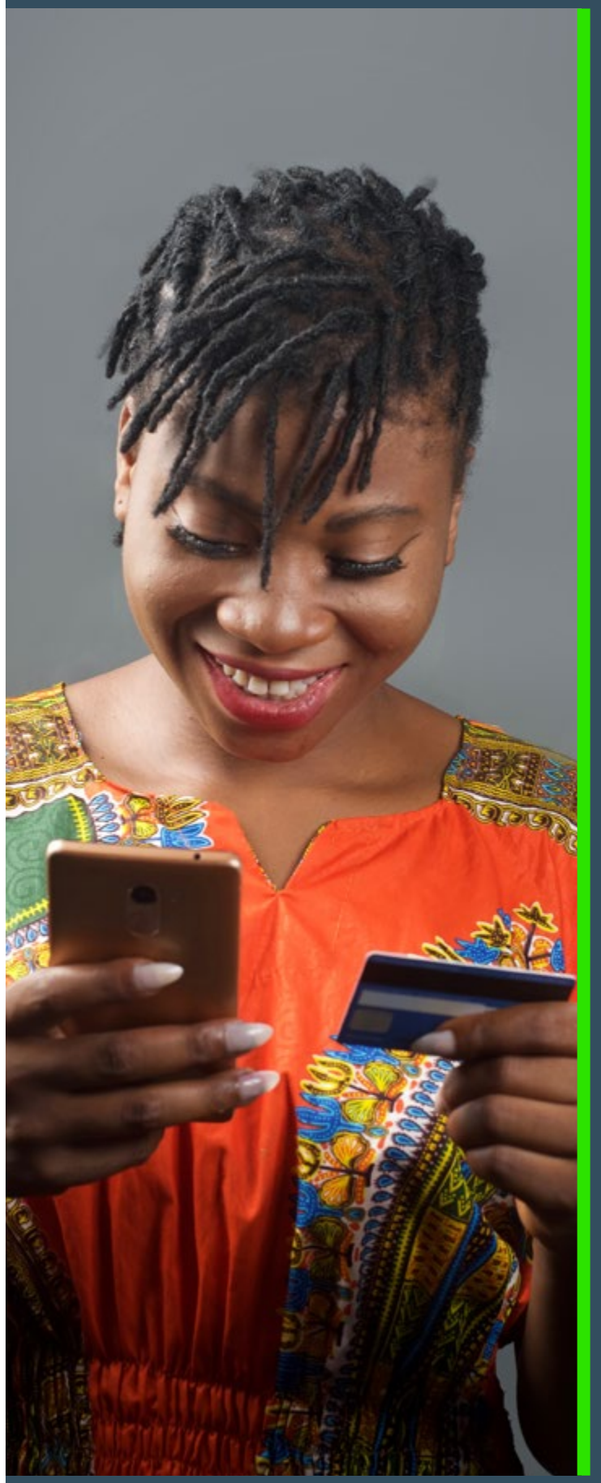
In addition to discovering these five points, the report from CGI also talks about how users want these services to be delivered. It is no surprise that digital channels overwhelmingly dominate. Here's a chart from the report:

How would you like your services to be delivered?



And here's the breakdown for each of the five points:





You can see that users consistently want a digital experience that takes into account each of these five points. By providing a digital experience that legitimately stands above the competition, financial institutions can be assured that they're engaging users in the digital age.

A Checklist for Standing Above the Competition in 2017

How does a financial institution provide an experience that stands above the competition? To do this, financial institutions must be introspective and earnest in their self-analysis. They should consider the following questions:

- Does our digital experience offer rewards? Better yet, do we offer targeted rewards by taking into account each specific user profile?
- Do we let our users access their balance anytime, anywhere? Does our digital experience let users see all their balances — even balances for accounts not at our institution?
- Does our digital experience cater to individual preferences so that the user knows we see them as a person? Do we offer an Omni channel experience?
- Does our app offer advice on wealth building, spending habits, and money saving tips?

If financial institutions can say yes to all of these questions, they should know they're effectively engaging their customers in the digital age. If financial institutions can't answer yes, they should worry about being left behind as the competition continues to heat up.

Like Moohrad Choudhry says, engaging with the customer is the biggest challenge facing banks right now, and those that do it well will win market share over the next five years.

"Banks must begin to act less traditionally and follow the path forged by other customer-centric organizations that allow themselves to be shaped by customer demand, using more mobile, more two-way, more "right-now" experiences to give customers what they want when they want it."

Source — KPMG, Banking Outlook

UBA Stakeholders engagements with the Ministry of Finance

UBA Stakeholders engagements with the Ministry of Finance

19

BANKING INDUSTRY SOCIETY SHARED VALUE (CSR)

Banks' Corporate Social Responsibility

Protecting the environment through Tree Planting

Corporate Social Responsibility or CSR has been defined by Lord Holme and Richard Watts a British Philanthropist, in the World Business Council for Sustainable Development's publication "Making Good Business Sense" as "...the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large."

Commercial banks in Uganda do recognize that the health of their businesses is inextricably linked to the long term prosperity of their clients and communities and to sustained local and global economic growth. As a key ingredient in business strategy and execution, CSR is playing a central role in helping commercial banks in Uganda contribute to social, economic and environment impact.

Over the years, commercial banks in Uganda have continued to act not only as financial intermediaries but they have turned their tremendous capability for innovation to financing consumer, social, and environmental solutions that benefit society while increasingly representing good investment opportunities for private capital.

The commercial banks' allocated a total of Ugshs **5.71 billion** towards CSI in 2016.

The commercial banks' allocated a total of Ugshs 5.71 billion towards CSI in 2016.The key focus areas for 2016 Corporate Social Investments were: Education, SMEs, Health& Sanitation, and Agriculture;

1.Education: "Supporting Capacity Building and Financial Education"
Education plays a vital role in promoting economic growth and social justice, and is associated with a wide range of positive outcomes ranging from improved health to better livelihoods.

Commercial banks supported financial literacy and education through sharing information about new products and services. Social Media, radio and print and direct engagement (meetings/workshops) were the strategies utilized to impart knowledge to targeted client base as well as facilitate skills building. Finance Trust Bank launchedan annual financial literacy workshopprogram for women. In 2016, the bank invested in the financial literacy workshops. The regional workshops were attended by over 3000 women in the Kampala, Jinja,Mbale and Mbarara and trained over 3,000 women in Busoga region.

Furthermore commercial banks created sustainable interventions that supported education at different levels including; early childhood development, primary and secondary level education, tertiary education and adult education and entrepreneurship training.

The expected return on investment in education included empowering individuals and communities in wealth generation through skills development consequently reducing unemployment, boosting growth of small and medium enterprises through skills training (SMEs), provision of affordable financial services to the unbanked.

To further facilitate learning, banks through their CSIbudgets also contributed to improve learning conditions in schools by donating books, computers, and school renovations through partnering of other organizations.
Stanbic Bank Uganda in partnership with Ka Tutandike Uganda, a non-governmental Community Based Organisation that supports vulnerable communities in Uganda, constructed the Ggaba Market Early Childhood Development (ECD) Centre in Bunga. The facility was constructed and

furnished by Stanbic Bank has the capacity to support up to 40 children per day who majorly come from vulnerable families. It provides quality day-care services for young children from families working in the nearby Ggaba market area with a clean, safe and healthy environment in which they could receive a quality pre-school education.

Barclays Bank Uganda contributed to reduction of unemployment through provision of education and skills with their "ReadytoWork" program free online course among other investments. Over 20,000 youth signed up for the free online course that provides them with the skills required to excel in the world of work, financial literacy and entrepreneurship training. 718 of these have so far been able to access work placements and internship opportunities through the support of various partners. Barclays Bank collaboration with Airtel continues to provide free data to access the online course.

Other banks that significantly contributed to improving education include DFCU Bank, Centenary Bank, Bank of Baroda, Tropical Bank, Eco Bank, Citi Bank and NC Bank.

2.Boosting growth of Small and Medium Enterprises (SMEs)

Small, Medium, Enterprises (SMEs) are the engine of growth for the economic development, innovation, wealth creation in Uganda and it is only a befitting investment in their growth. Commercial banks have continued to play a significant role in this.

Interventions in the SME space mainly focused on practical hands-on trainings in skills and expertise required to start, manage and grow sustainable businesses. The goal of banks' Corporate Social Investment in SMEs was to raise awareness about the importance of Micro entrepreneurship and microfinance in supporting the financial inclusion and economic empowerment of low-income individuals and to also prepare young people with the career readiness tools and opportunities needed to thrive in today's economy.

The programs were geared to address the youth unemployment challenges in Uganda by providing skills for entrepreneurship as well as youth preparedness to compete for the limited employment opportunities available.

Notable initiatives include investments by DFCU Bank, Citi bank, Barclays Bank and Orient Bank through their various programs including, Women in Business mentorship classes,

Investment Clubs providing financial inclusion workshops and promoting a saving's culture, Micro entrepreneurship Awards Program, Citibank & Techno Serve Women Mean Business Girls' Apprentice Program, Youth Livelihoods Project, Orient Bank Business Academy among others.

These initiatives have been undertaken with supportfrom organizations including USADF, KIBO Foundation, Rotary Club and Citi Bank group, Makerere University Business School, Mbuya, Junior Achievement Uganda, Baylor Uganda, and Educate Uganda.
Other banks that made significant investments in SMEs include NC Bank and Centenary Bank.

Tropical bank team Teaching Children the Value of money at SOS Village - Entebbe

3.Health, Water and Sanitation

Investment in health, water and sanitation in Uganda makes good economic sense and is critical for achieving the country's economic development goals. A number of commercial banks focused their Corporate Social Investments in 2016 towards improving health and sanitation conditions of the communities where they work. These health institutions try to make sure their beneficiaries are supported to retain a sense of normalcy while they undergo medical treatment.
This was done through; campaigns, health camps, fundraising for medical equipment in health centres, contributions towards surgeries, contributions to maternal health, cancer treatment, blood donations and fundraising for construction of bore holes.

Bank of Africa's campaign against Fistula condition,contributed to increasing knowledge on Fistula and its implications on women and the general public. Fistula is a leading reproductive health challenge arising from after birth complication and affecting a staggering statistic of 50,000 to 100,000 women worldwide.

Centenary Bank contributedto the fight against breast and cervical cancer. The Bank partnered with Rotary District 9211 and St. Raphael of St. Francis Hospital Nsambya to implement the Rotary Family health days and covered 70 districts. The bankheld cancer awareness runs and the rotary annual conference, launched a youth skilling centre and supported five hospitals with cancer testing kits.

Other banks including Eco Bank, Bank of Baroda,GT bank and Housing Finance Bank, Finance Trust Bank also contributed significantly to improving health conditions of the communities'through monetary contributions to heart, Surgeries, Sickle cell treatment, Cancer treatment and purchasing of medical equipment.

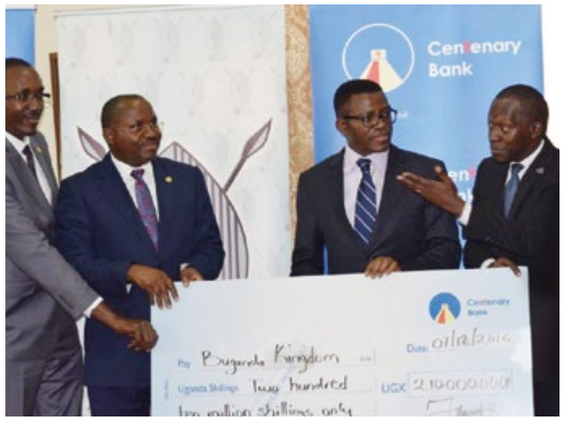
One of the best 5 graduates - Hope Kalungi receives her start-up sewing machine from Citibank Executive Director – Robert Jjagwe, Citibank Head of HR – Rachel Dumba &TechnoServe President & CEO - William Warshauer.

4.Improved Agricultural and Environmental Practices

Besides supporting education, SMEs, health and sanitation, commercial banksin partnership with other development agencies worked to improve the quality of farming practices.
Agriculture accounts for over 80% of Uganda's labour force and for 27% of the country's exports. It is therefore a very important sector in Uganda's growing economy as shown also by its contribution to the country's Gross Domestic Product

Towards this end, DFCU supported the Uganda Best Farmer Program, a program that has been running for over the past three years through educative farm tours, trainings and farmer exchange programs in the Netherlands in collaboration with the Dutch Embassy, Vision Group and KLM Airlines.

Centenary Bank CSR activities



Chief Manager Business Growth, Mr. Michael Jingo and Managing Director, Mr. Fabian Kasi donating UGX 210 million to Buganda kingdom which was represented by Owek. Kattikiro (Prime Minister), Mr. Charles Peter Mayiga.

Runners form a human ribbon at Kololo Ceremonial Grounds to demostrate their willingness to fight cancer.

Bwaise branch represented by Branch Manager Mr. Ojiambo Patrick (back row, second left), donating water tank to Malaika Orphanage Children Foundation

General Manager Operations Mr. Joseph Kimbowa (sec-ond right) and Branch Manager Wakiso(extreme left) donated chairs to St. Yowana Mariachurch, Gombe Sub-Parish, Kayunga-Wakiso which was represented by Rev. Father Ronnie Mubiru (second left).

GT Bank CSR activities

Prime Minister of Uganda Ruhakana Rugunda (Third left) and MD GTBank Uganda, Mr.Olufemi Omotoso (Third Right), in the center are participants doing physical fitness after the marathon.

Stanbic Bank CSR activities

Stanbic Bank Uganda partnered with Ka Tutandike Uganda to refurbish the Ggaba market ECD Centre which serves over 40 vulnerable children.

Stanbic Bank partnered with the Ministry of Education for the second season of the national schools competition targeted, for secondary schools across Uganda to stimulate students to sharpen their critical thinking, while creating problem-solving

NC Bank CSR activities

Uganda Insurance Association write-up

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Uganda Insurance Association write-up

Exim Bank CSR activities

CSR team and Heads of Departments at Katalemwa Chesire home

CSR team and H.O.Ds at Mapeera Bakateyamba home

Bank of Africa CSR activities

Caption: Artiste Halima Namakula (2nd R) joins Women at Work International (WAWI) and staff of Bank of Africa in Uganda at the 5th End Fistula Walk in Kampala that took place on 16 July 2016.

Tropical Bank CSR activities

Financial Literacy sessions for KCCA Councillors

Staff trained in Islamic Banking Operations were awarded with Academic Certificates by IBFIM

Barclays Bank CSR activities

Members of a VSLA in Iganga during one of their weekly savings meetings

Students at Makerere University Business School signing up for ReadytoWork

Citi Bank CSR activities

Citibank Uganda Managing Director - Sarah Arapta with the Gold winner of the 2015 Citi Microentrepreneurship awards - Geraldine Nalubega and her Family

Citibank employees Victoria Naiga from the Corporate Bank team and Stanley Katwaza - Compliance Head, mix construction materials for the renovations at Kibuli Police Primary School

Uganda Development Bank CSR activities

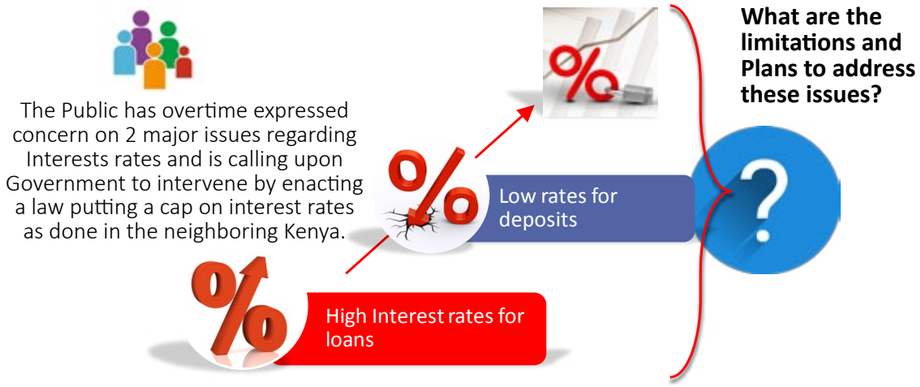
UDB offers a cheque of 5,000,000 UGX to the Rotary Blood Bank

UDB staffs at the charity walk to mark Bank of Uganda (BOU) 50 years of existence under the theme "Promoting Financial Stability.

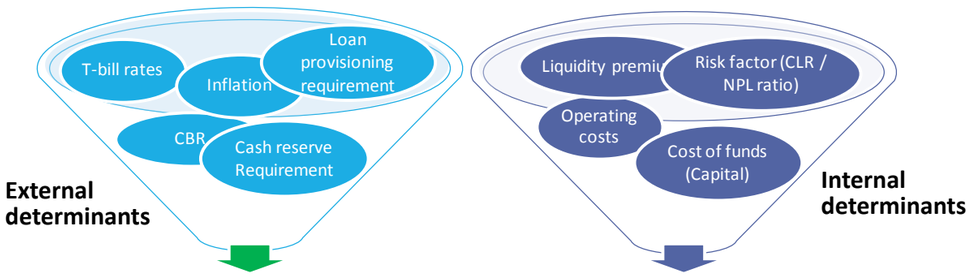
17 KEY ISSUES IN UGANDA'S BANKING INDUSTRY

June 2017

Challenge of high cost of credit

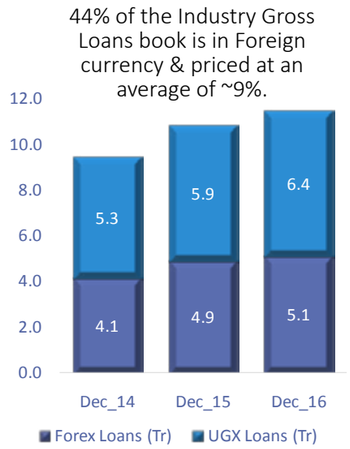


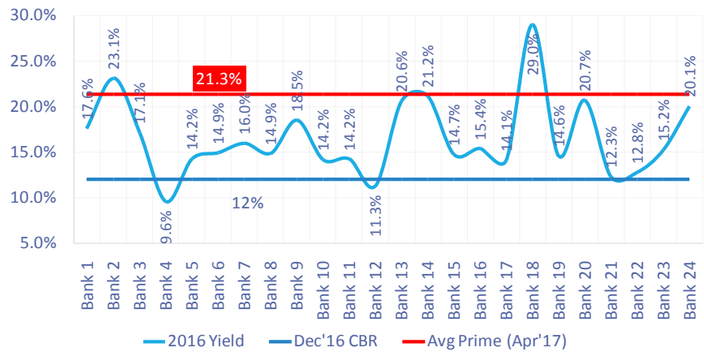
Interest Rate Dynamics : Determinants of Interest rates



	Prime Lending Rate				
	Scenario 1		Scenario 2		
• Policy signal on relative cost of credit.	Reference Rate (CBR)	11%	Reference Rate (CBR)	11%	
	Inflation	5.0%	Cost of Capital	2.5%	• Premium the bank pays for deposits held.
	Operating Cost margin	2.0%	Operating Cost margin	2.0%	• Cost a bank undertakes to maintain the structures and pay the staff that serve the client.
• Required to put aside 8% of all deposits as reserves.	Cash reserve margin	1.0%	Liquidity Premium	3.5%	• Cost incurred by the bank to ensure funding is available to the client at any time.
	Bank profit margin	1.5%	Credit Loss Ratio / NPA	2.0%	• Considers the risk of default for a borrower.
	Prime Lending Rate	20.5%	Prime Lending Rate	21.0%	

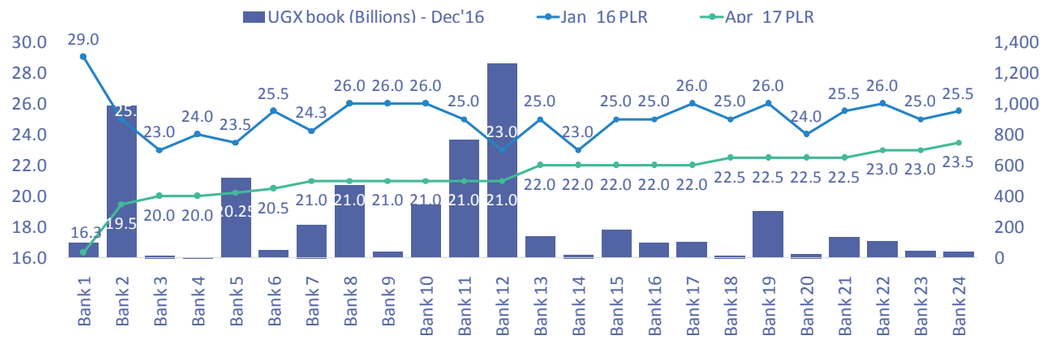
A Large part of the Banking Portfolio is priced below Lcy Prime





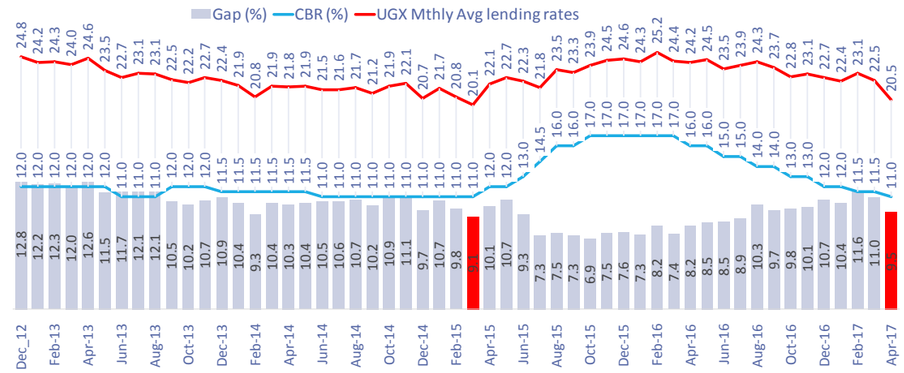
Only 2 banks above the industry average prime lending rate: mainly because their portfolios are predominantly LCY. 2 banks yield rates were also below CBR as at Dec'16.

Efforts to further reduce Prime Lending Rates in progress



Some big LCY portfolios have registered more than 300bps movements between Jan'16 and end of April 2017.

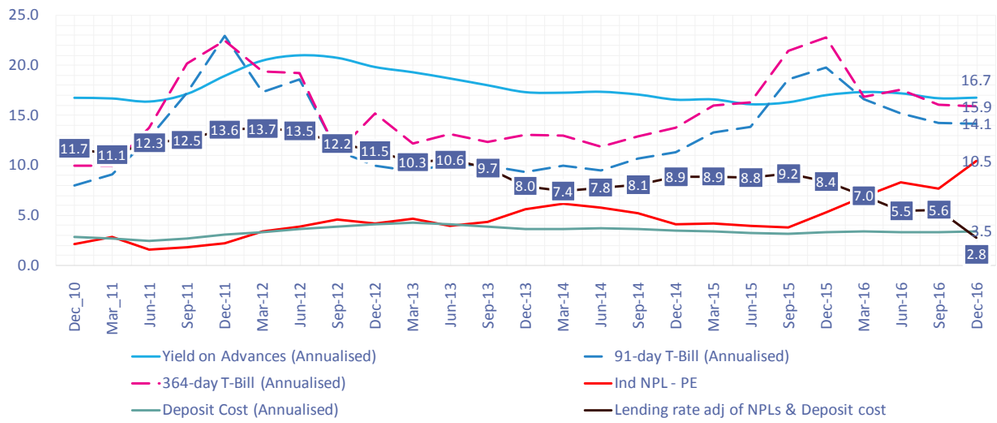
UGX Lending rate now closer to the rate before the CBR hike period



Source : Bank of Uganda

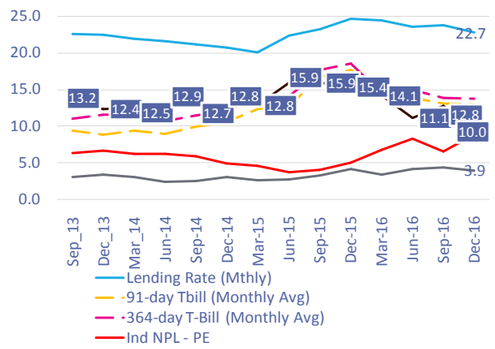
Limitations

Margin pressure on L&A driven by NPAs is a key obstacle

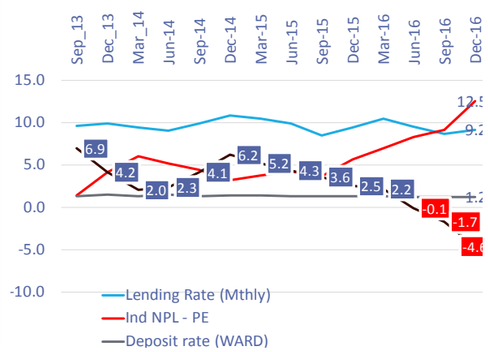


Currency Scenarios: Higher impact on the Foreign Currency portfolio

LCY Portfolio : Industry NIMs below 364day T-Bill starting Sep'15.



FCY Portfolio : Industry NIMs in negative territory.

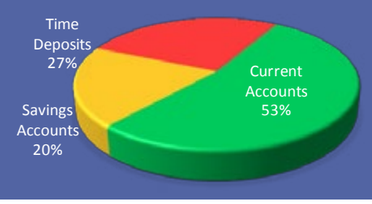


Source : Bank of Uganda

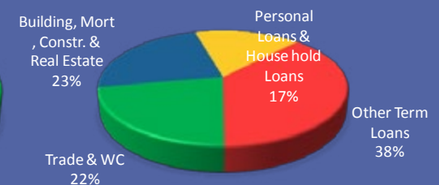
The Cost of FCY funding is on the rise

There is a general funding mismatch in the Market driving up funding costs.

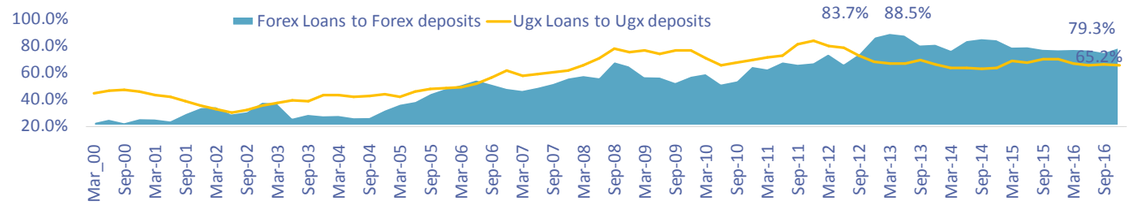
Client deposits (Dec'16):



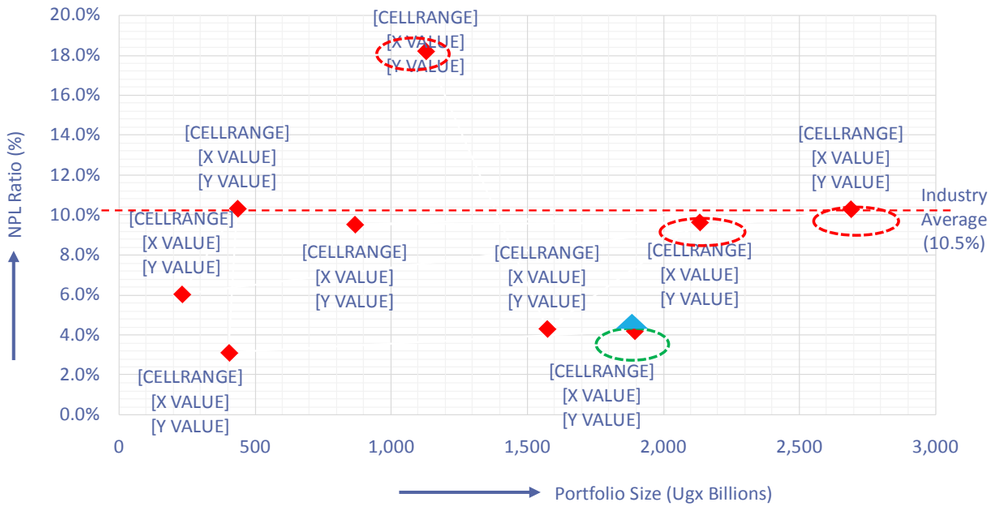
Client Loans and Advances (Dec'16):



Medium to Long-term book is ~78% while the client deposits book is predominantly short-term. We have to devise ways of funding the long-term FCY book which is getting expensive.



High Risk under Dominant sectors is also not helping our cause



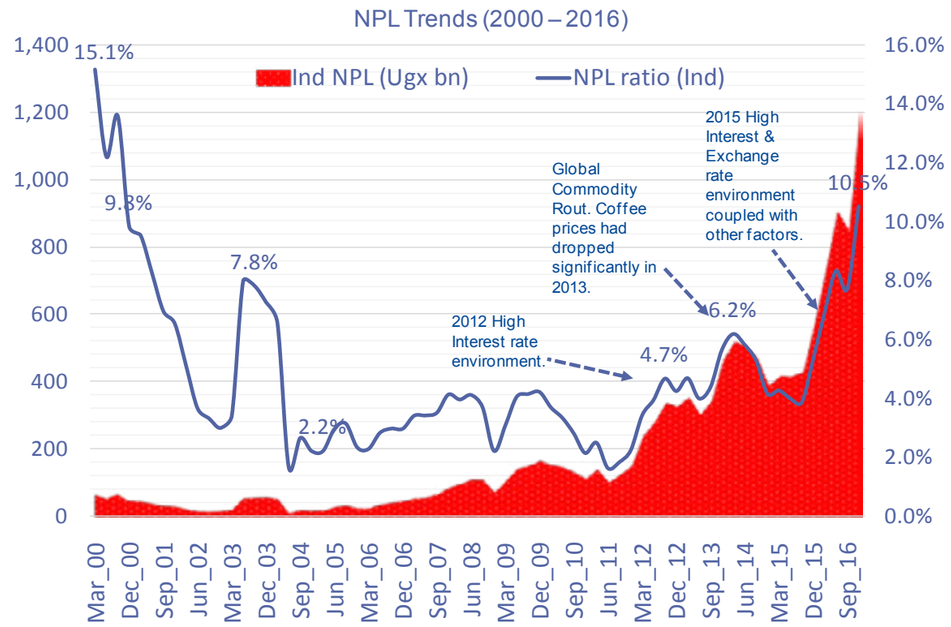
- We have accelerated lending in the Personal and Household loans sector given the lower risk profile and lower rates have been advised for most salaried clients.
- Trade & Commerce and Building & Construction constitute ~42% of the total lending portfolio. A number of SMEs operate under these sectors which remain high risk.

Source : Bank of Uganda

ANNUAL BANKERS CONFERENCE

KEY ISSUES IN UGANDA'S BANKING INDUSTRY

Sector Risk is substantially elevated by Client Behavior

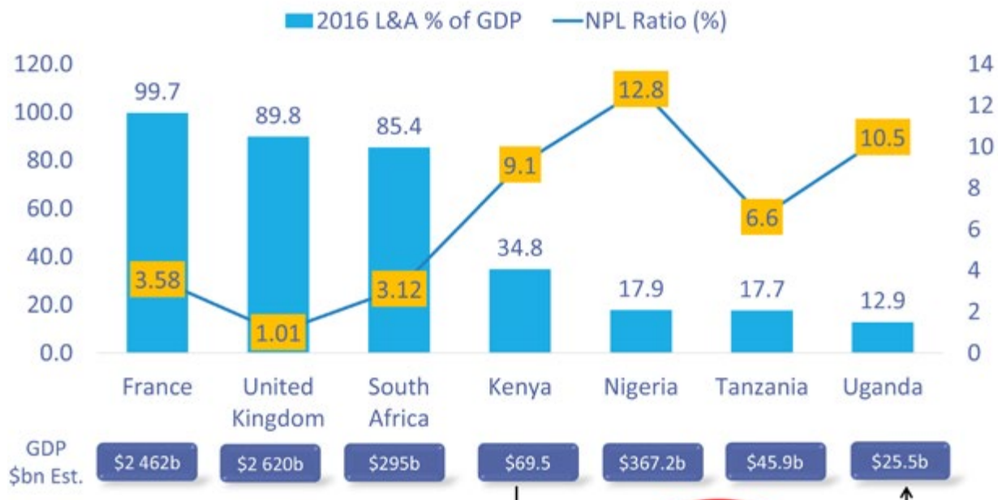


Reasons for non-performance of credit facilities

Reason	% share	No. of banks
Delayed payment	24.0%	5
Cost overruns / Insufficient cash flows	22.7%	4
Diversion of funds	14.9%	16
Price Volatility	7.0%	1
Debtors failed to pay	4.5%	3
Political Instability in South Sudan	4.1%	5
Poor Management by borrowers	3.0%	3
Low sales	2.3%	8
Increased competition	1.3%	3
Fraud	0.8%	2
Forex Exchange Volatility	0.6%	2
Delayed receipt of goods	0.5%	1
High interest rates	0.3%	2
Others	14.0%	12

Source : Bank of Uganda

Banking penetration in Uganda still low but loss experience still high

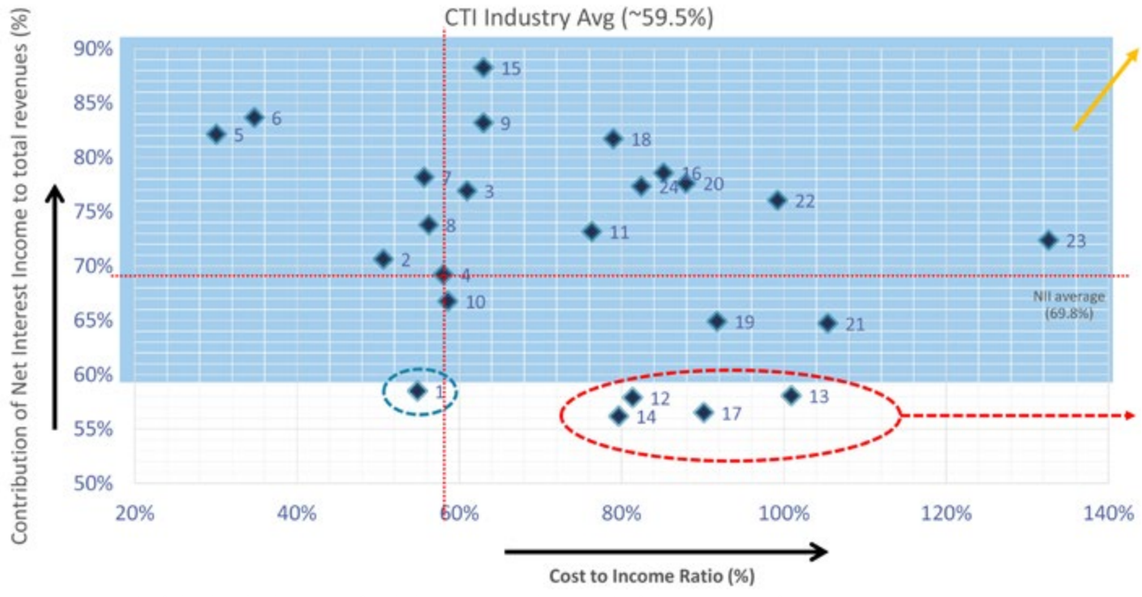


- NPL ratios for France, UK, SA and TZ are FY 2015.
- SA and Kenya have Interest rate Caps.

No:	Geography	of GDP
1	South Africa	88.5
2	Morocco	85.3
3	Tunisia	69.2
4	Mauritius	68.4
5	Namibia	55.3
6	Algeria	44.7
7	Egypt	32.4
8	Libya	40.1
9	Senegal	40.8
10	Mozambique	39.6
11	Togo	35.7
12	Kenya	35.9
13	Botswana	32.3
14	Burkina Faso	28.9
15	Mali	25.1
16	Angola	31.4
17	Cote d`Ivoire	23.2
30	Uganda	13.2

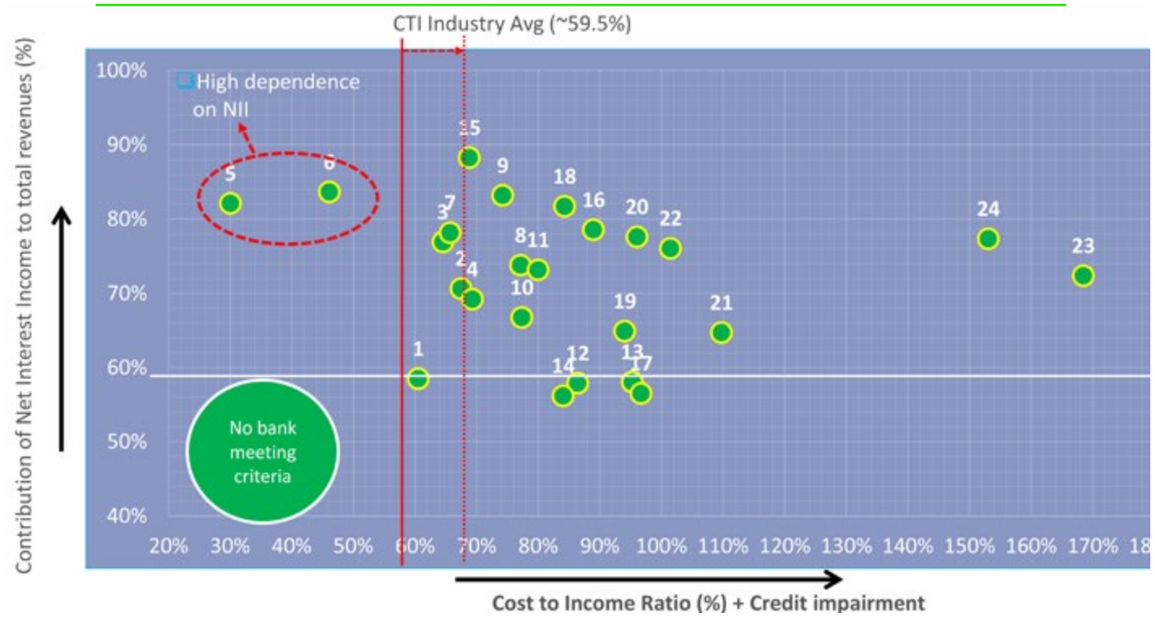
Source : Business Monitor International

Margin erosion easily places Uganda's Banks at risk



- 79% of the banks (19 out of 24) derive more than 60% of their income from Net Interest revenues as opposed to Non Interest revenues. Position as at December 2016 (Audited Financials)
- Non Interest Revenues not sufficient to bring down CTI

Enhanced view enhances Sustainability Risk across all Banks

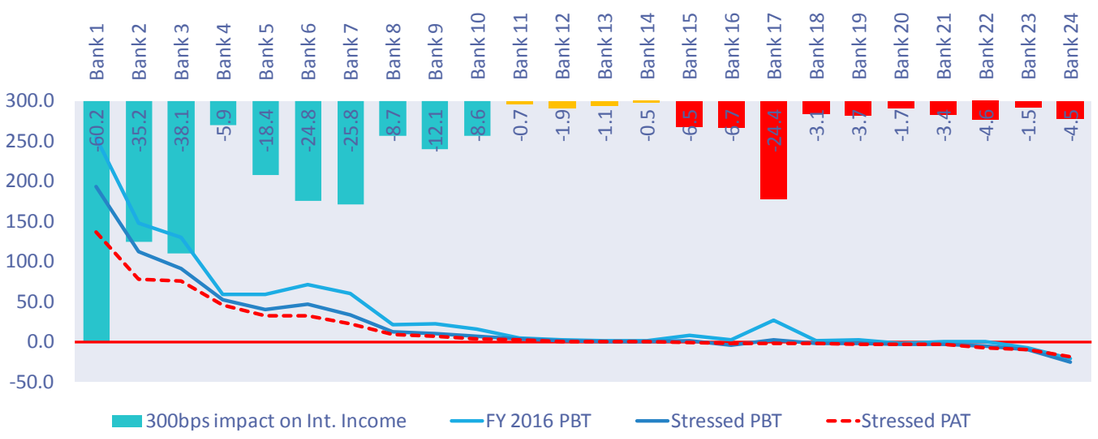


- CTI incorporating credit impairment pushes industry average CTI to 69% from 59.5%.
- Only 2 banks would have restated CTI under 60% however dependence on NII is over 80%.

2016 Published Audited Financials

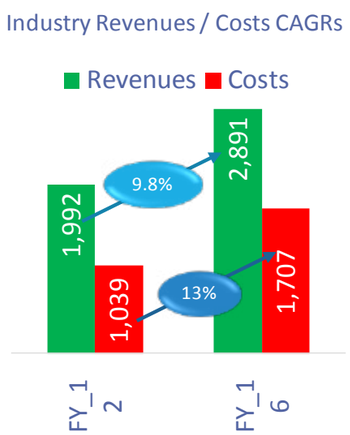
KEY ISSUES IN UGANDA'S BANKING INDUSTRY

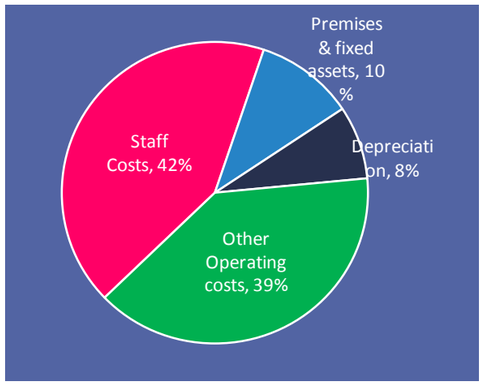
Stress scenario : 300bps yield drop across Bank L&A portfolios

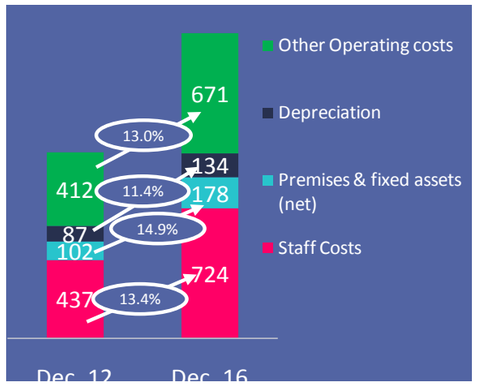


2016 Published Audited Financials / BOU

Cost growth has exceeded Revenue growth over the last 4 years



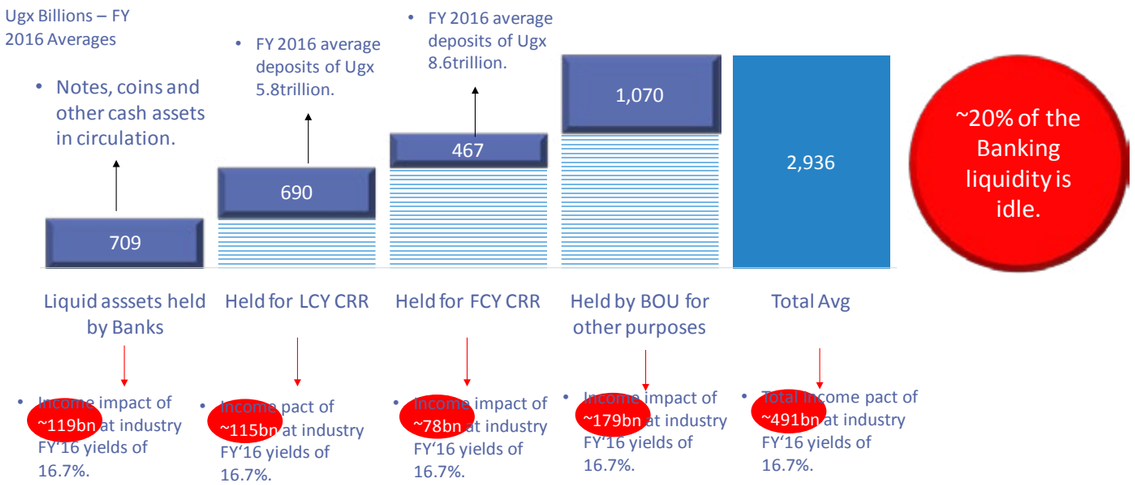




- Revenue growth has been single digit as Cost growth has exceeded Inflation.
- Premises and fixed assets costs have led the cost growth (CAGR ~15%) – We should start to scale back as Digitization is embedded.
- Staff cost growth has been mainly a component of Headcount growth, close to 1000 new staff between 2013 and 2016.
- Operating costs: top costs include IT & Communication costs (~40%) & Cash handling costs (~6-10%) ; our shared initiatives to come in handy.

Source : Bank of Uganda

A large chuck of the Banking liquidity remains idle…impacting 'half a trillion' in annual income or Investment opportunities



Structural limitations are hindering our ability to aggressively support National targets…

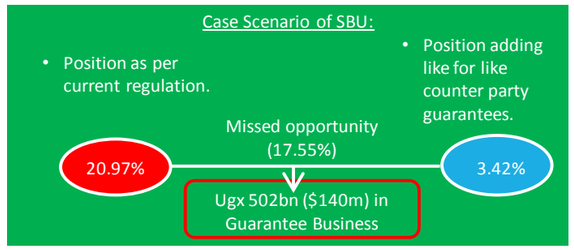
Government Medium term Targets

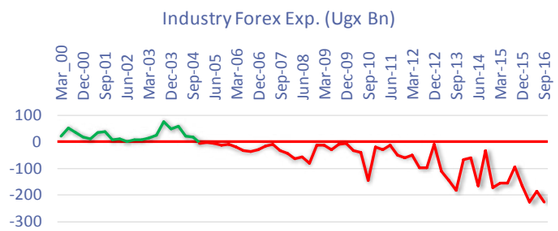
- Front Loading of infrastructure and energy spend as key growth interventions in NDPII- 2020.
- National roads upgrade by 58% to 6,000km.
- Power generation from current 850MW to 2500MW.

USD 'Billions' - Bud	2017-20/21	%
Works & Transport	$7.1bn	31%
Energy & Minerals	$2.8bn	12%
Education	$2.7bn	12%
Security	$1.7bn	8%
Pub. Sector Mgmt.	$1.3bn	6%
Health	$1.3bn	6%
Accountability	$1.3bn	6%
Others	$4.8bn	21%
Total	$23.1bn	100%

Key Problem Statement:

- Total banks NOP as at Dec'16 was ~$192m (not accounting for current utilisation). NOP implications of an incremental ~$55million required annually for guarantee business under Transport and Energy estimated at UGX59trillion by 2020.
- The increasing FX business is expected to worsen the Forex exposure position unless regulation is revisited.

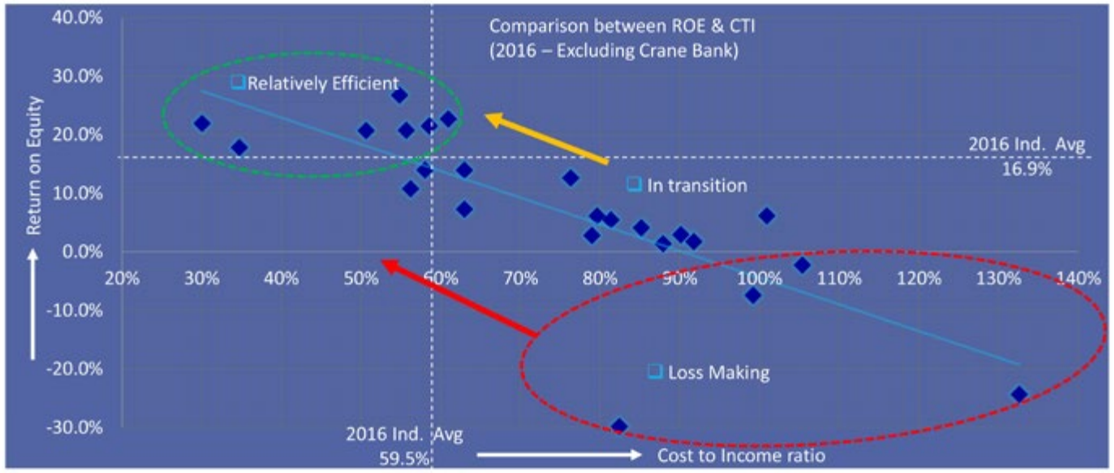




Source : Bank of Uganda

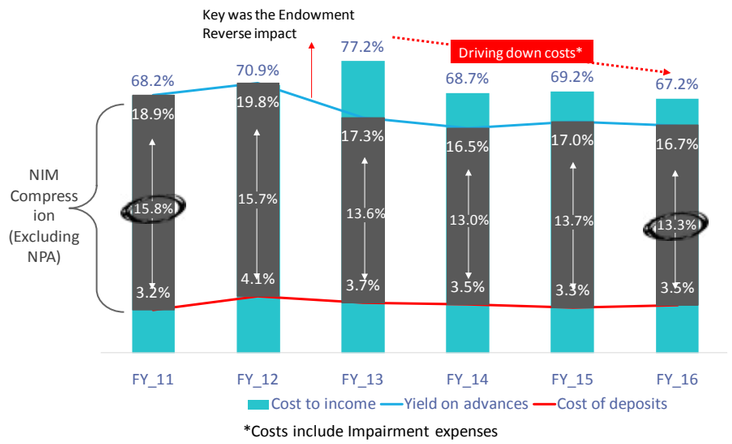
Work in progress and Emerging Plans

A large chuck of the Banking liquidity remains idle…impacting 'half a trillion' in annual income or Investment opportunities



Source: 2016 Published Audited Financials

Efficiency will enable us accelerate drop in CTI ratios across the Industry



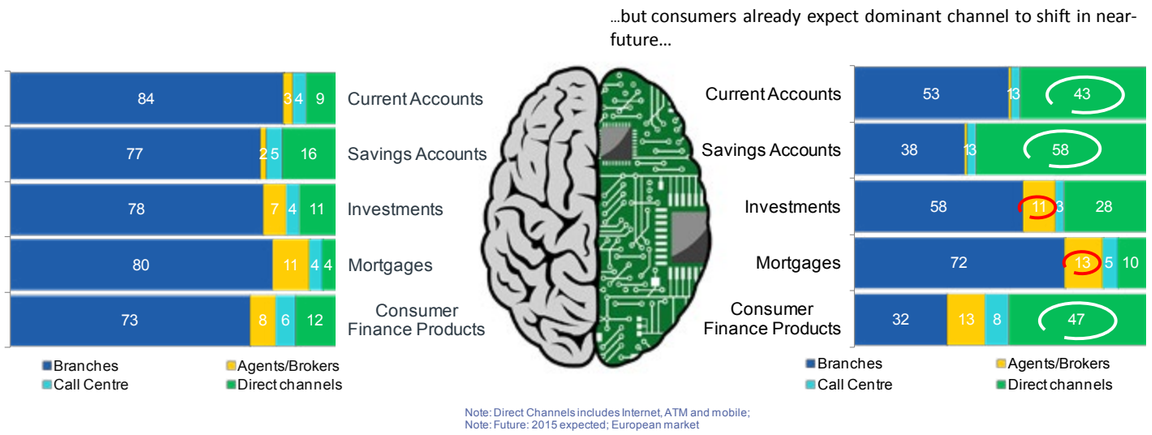
Source : Bank of Uganda

Broad Cost initiatives:

- Return on Investments in technology will gradually bring CTI ratio down but we expect periodical spikes in CTI ratios due to Investment injections. IT CAPEX spend for FY 2015 estimated at Ugx 79bn.
- Reduction in network costs – Unprofitable and non strategic touch points merged / Closed – replaced with Digital platforms and Agents.
- Headcount rationalization to keep costs in line with Income. Banking sector employs ~11,000 employees and average cost per staff in 2016 was estimated at Ugx 63m.
- Setting up the ARC to help with Impairment expenses.
- Benefits from these initiatives will be passed on to the customer in the medium term.

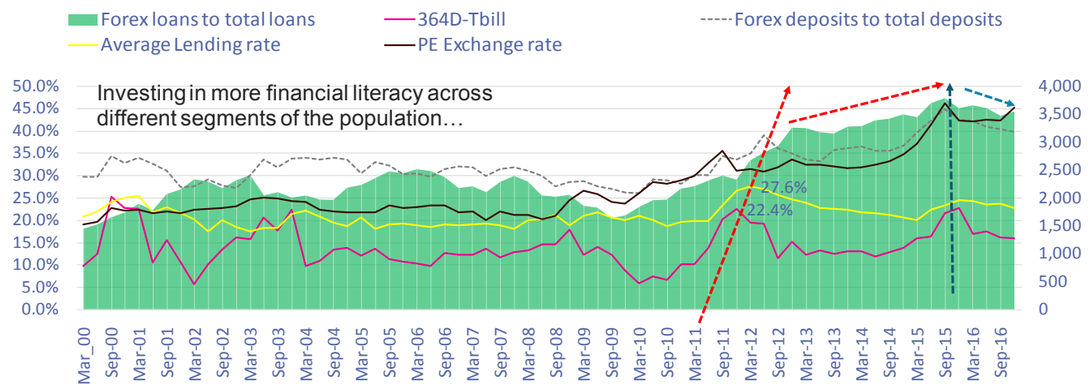
At the Root of Efficiency is the Digitization drive and operationalization of Agency banking

Extending service access points through electronic channels like ATMs, Internet Banking, Mobile Banking, partnerships with MNOs for Mobile Money and more recently Agency Banking.



Sources: EFMA online survey across 150+ European banks

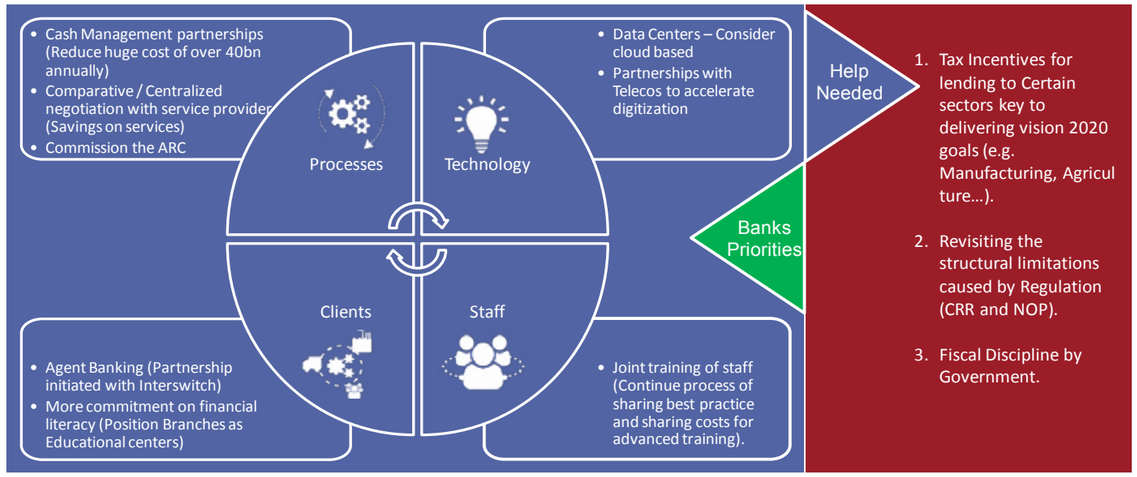
Advanced Financial Literacy is key : The Dollarization of the economy is a symptom of short sighted borrowing habits



The Record high interest rates in 2012 caused many of the businesses to switch to borrowing in FCY where rates are not subject to the local interest rate movements and monetary policy. The slight turn in Q4'15 was a result of the accelerated depreciation of the UGX (touching a record PE high of 3695 in Sep'15) which immensely increased the FCY borrowing costs.

Source : Bank of Uganda

Top of Mind as we push ahead



Our Broader Intent is to play a pivotal role in Uganda's Economic growth

1. Technology: Upgrading of core banking systems to support the new demands and expectations.
2. Capital Mobilization: Exploring new and cheaper sources of funding.
3. Lowering the cost of banking services.
4. Facilitation of Trade (Emerging Trade corridors).
5. Financial Inclusion: Tapping into new segments to support growth & sustainability.
6. Financial literacy: Embedding programs to upskill communities.

1. Alignment to Government Short and Long term plans (Vision 2020 & 2040).
2. Process Changes: New processes for client onboarding (Digitized), managing client relationships and managing emerging risk (Cyber risk).
3. People: Upskilling staff critical to implementing & operating the various vehicles as well the new process changes.

1. Branch network optimization : Mergers and consolidation of Branches
2. Agency Banking: New agreement under UBA finalized (Interswitch given mandate).
3. Digitization: Scaling up ATMs, Mobile Banking, Online Banking etc.
4. New partnerships with Investors, Government, Development partners & other key players in the market.

1. Specific bank strategic plans : Covering sectors and segments.
2. Market driven banking models: Shift from a product driven focus to a client centric model.
3. Speed of Execution: As an Association and Individual Banks

1. Affordability of credit will foster economic growth, banking assets balance sheet growth and also reduce risk of default thus improving profitability.
2. Lower cost of doing business for SMEs and grass root communities as banks' costs to serve reduce (SMEs contribute ~70% of GDP).
3. Win-Win Situation : Fast paced growth in GDP uplifting the economic and social aspects of the people of Uganda and thus supporting sustainability of banks.

Ref: Strategy Diamond (Donald Hambrick and James Fredrickson)

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ROLE THE OF CIVIL SOCIETY AND DEVELOPMENT AGENCIES

Civil society is evolving in impactful and dynamic ways.

Definitions are changing as civil society is recognized as encompassing far more than a mere "sector" dominated by the NGO community: civil society today includes an ever wider and more vibrant range of organized and unorganized groups, as new civil society actors blur the boundaries between sectors and experiment with new organizational forms, both online and off. Roles are also changing: civil society actors are demonstrating their value as facilitators, conveners and innovators as well as service providers and advocates.

The World Bank has adopted the definition of civil society developed by a number of leading research centres, namely: *"the wide array of non-governmental and not-for-profit organizations that have a presence in public life, expressing the interests and values of their members or others, based on ethical, cultural, political, scientific, religious or philanthropic considerations. Civil society organizations therefore refer to a wide array of organizations: community groups, NGOs, labour unions, indigenous groups, charitable organizations, faith-based organizations, professional associations, and foundations."*

An explosion in the number of registrations of civil society organizations (CSOs) has been noted, including a significant increase in activity in developing and emerging economies. Although under-resourced in comparison to business and government, funding for civil society activities has grown substantially in specific areas with support from major foundations and tailored funds

Furthermore, the context for civil society is changing: economic and geopolitical power is shifting away from the traditional power houses (Europe and North America); technology is disrupting traditional funding models and dramatically shifting social engagement; and political pressures are restricting the space for civil society activities in many countries. All of these shifts pose challenges, create opportunities and require rapid adaptation on the part of traditional actors.

Underpinning all of this is the sense that civil society in our times is a vibrant, diverse and evolving space, which is increasingly innovative in its attempts to solve social-economic and environment challenges and support local, national and global governance. Looking forward into the future, civil society leaders need to understand how shifting external contexts will shape their opportunities to achieve impact, and, in particular, what this evolution means for their relationships with businesses, governments and international organizations. In a turbulent and uncertain environment, actors can no longer work well in isolation – new, more effective ways of tackling social-economic and environmentchallenges will inevitably transcend traditional sector boundaries. This means civil society actors need to look to unusual sources for inspiration and relevance in order to adapt successfully and continue providing support to economic empowerment of the communities they serve.

....civil society should be the glue **that binds public and private activity together** in such a way as to strengthen the common good.

Through continuous engagement with government, business and international organizations, civil society actors can and should provide the resilient dynamism the world urgently needs. The power and influence of civil society is growing and should be harnessed to create trust and enable action across sectors. The changes that civil society is undergoing strongly suggest that it should no longer be viewed as a "third sector"; rather, civil society should be the glue that binds public and private activity together in such a way as to strengthen the common good. In playing this role, civil society actors need to ensure they retain their core mandate, integrity, purposefulness and high levels of trust. The world will always need independent organizations and individuals to act as watchdogs, ethical guardians and advocates of the marginalized or under-represented. Civil society in all its forms has an important role in holding all stakeholders, including itself, to the highest levels of accountability. The shifting definitions, roles and contexts suggests that leaders across civil society, business, government and international organizations possess the opportunity to harness these shifts in order to design new solutions to societal challenges. Civil society can play a particularly powerful role in this process as an enabler and constructive challenger, creating the political and social space for collaborations that are based on the core values of trust, service and the collective good.

Civil society is vibrant : Civil society today is recognised as a diverse and ever-wider ecosystem of individuals, communities and organizations. Information and communication technologies have opened up spaces of power, influence and association to new configurations of actors, leading to a significant growth of online civil society activity, and enabling networks to be built across geographical, social and physical divides. These networks allow greater numbers of people to aggregate and collectively address social-economic and environmentchallenges. Networked citizens have started to change the interface and expectations of civil society empowerment. Since 2010, there has been a renewed energy of citizen expression and participation in different forms around the world.

Civil society is influential: In the words of one expert, "civil society's time has come". Civil society is a genuine constituency that sits alongside other stakeholders, and is generally accepted and established in global governance processes. Formally organized and more loosely networked civil society groups are increasingly involved in partnerships with governments and businesses, and are engaged in official consultation processes of multilateral fora such as the G20 and the United Nations.

Civil society is a strong voice. Across the globe there are examples of civil society exhibiting an energetic voice in promoting the principles of fair and equitable economic development, gender equality and human rights. In many countries, however, the community faces ever-tightening restrictions. Whether via strict media oversight or burdensome regulatory hurdles for CSOs, governments in numerous countries are restricting the space for civil society – particularly in the arena of advancing human rights or democratic principles. Steps to suppress or curb civil society freedoms include limiting access to national and foreign funding, erecting barriers to mobile communications, and applying onerous, arbitrary or poorly administrated registration processes.

Recognizing that no one sector can solve the world's major social-economic and environment challenges alone, these roles are increasingly carried out through engagement in partnerships and collaborative frameworks across civil society, and with stakeholders from business, government and international organizations. The unique concept of civil society as "the space where we act for the common good" is expanding, as civil society actors frequently play the role of enabler in driving change in collaboration with other stakeholder. This should apply in the area of mobilizing financial resources to support worthwhile causes afflicting society.

The leadership and innovation of "enlightened" corporate and public bodies with an expressed commitment to social purpose complements such efforts. A shift in the mobilization of private sector capital towards social and environmental objectives – for example through corporate sustainability or citizenship programmes, new models of philanthropy and social investment instruments – is introducing a set of leaders from the corporate sector committed to driving broad societal change. Business leaders from major multinationals are actively contributing to global governance processes. This is exemplified in the corporate social responsibility that Banks in Uganda have taken an active role.

Traditionally-compartmentalized divisions between stakeholder groups are starting to dissolve, and both agenda-setting and the development of new solutions to global challenges are characterized increasingly by a matrix of representatives with overlapping roles and responsibilities.

Civil Society playing an enabling role. Civil society is seen to add significant value to other sectors, whether as an official partner, through informal collaborations or through "spillover" effects. Experts from business, government and international organizations have highlighted the importance of the roles that civil society plays as part of the broader governance system. For business civil society provides legitimacy, assets and intelligence to help deploy solutions that may be complementary to or aligned with private sector interests. Civil society is used to doing "more with less" and seeking innovative solutions to societal challenges. Much has been made of the concept of "frugal innovation" in recent years; similarly, civil society has incubated product and service areas that have led to commercial applications. Civil society organizations and activities are also often able to access local knowledge, expertise and insight to reach "the last mile", providing connections with and understanding of potential consumer bases. Finally, many sophisticated private sector players map and build relationships with key opinion-formers who influence the policy and public agenda. Grameen bank started as a social innovation and has since grown.

In terms of policy formulation, civil society is a valuable partner in providing deep subject-matter expertise based on first-hand experience, trialling and scaling up innovations in social services and facilitating citizen engagement. Civil society representatives often act in the public interest as whistle-blowers, holding institutions and individuals to account. This is a valuable service that complements government regulation and oversight, but one that can be under-valued. Similarly, CSO activities, both alone and in public-private partnerships, often complement (and frequently supplement) government assistance in providing a wide range of services to populations.

For international organizations, civil society representatives possess significant experience and expertise, particularly at grassroots level, that can help international organizations formulate policy and strategy effectively. By virtue of being closer to the end-beneficiaries of global policy and programmes, civil society organizations and movements can add credibility to international organization activities. By involving civil society as implementing partners, interventions are more likely to be effective on the ground and to reach those who are most in need. As new public-private partnerships emerge, civil society can also provide accountability as a watchdog to ensure outcomes are socially and environmentally responsible.

Influential Trends There are identified number of trends shaping civil society roles and relationships with other stakeholders. Some of these factors are working in favour of an enhanced role for civil society; others challenge this community to define more sharply its responsibilities and contributions. Business, government and civil society leaders now want more socially inclusive models of governance and economic policy. The world is becoming hyper-connected. Through increasing access to the Internet, social media and mobile phone technology, the power of the individual as a virtual citizen is on the rise.

Interest is growing in the role of faith and religious culture in society Individuals within government, business and civil society are exploring new ways to leverage the strengths of on-the-ground faith based actors within the context of local community development, as well as in overseas aid and economic development. Faith is also seen as a source of ethical principles and values within business models. Appropriate mechanisms need to be defined for engagement with leaders of religious institutions and faith-based organizations. There is profound public pressure – and increasingly an economic argument – for responding to pressing challenges of inequality. The extremes of wealth and the depths of poverty that have arisen globally in recent decades provide a stark reality for leaders of government, business and civil society. The power of the Internet to vividly project this phenomenon puts each sector under the spotlight to respond swiftly and convincingly. We have examples awash how faith based institutions have mobilized financial resources and joined the financial and banking sector

EMERGING TRENDS

Significant demographic shifts are under way which have yet to be factored into our economic, political or social systems. The demographic distribution of young vs. older national populations is having and will continue to have a profound effect on how civil society, business and government position their strategic approaches to deliver job opportunities, health care and mechanisms for responding to citizen needs. The generation of youth that is presently emerging only knows a world that is wired and, significantly, is using social media to address its concerns, exert rights and create positive societal change. Planning for the development of mechanisms to "deliver" in a world forecast to have a population of 9 billion people by 2050 – many of whom will live within emerging economies and in cities – represents a significant challenge.

There is reduced certainty of funding size, sources and modes from traditional donors and a rise of new socially driven financial actors CSOs have witnessed traditional funding streams shrink. Modifications have been made to donor criteria, including diversification of funding sources, requirements for private sector partners, and more stringent requirements to demonstrate impact. Simultaneously, new sources of finance are emerging, such as the rise of emerging market philanthropists, social entrepreneurs, and social investment products. New mechanisms to access finance are also emerging, such as crowd-sourced funding and models which include an online lending platform connecting lenders and entrepreneurs.

There is a widening trust deficit towards institutions and between sectors There is a reduction in level of trust by the general public in institutions around the world such as business and government. Trust in governments and the financial sector has particularly been affected. Governments facing fiscal pressures are scaling back social service provision. Recent concerns over government debt and attempts to restore competitiveness after the global financial crisis of 2008 have resulted in austerity measures that cut public spending on social services. Private sector players are increasingly developing strategies to address social and environmental challenges. A number of leading businesses are today reorienting their activities with the objective of bringing positive impact to complex socio-economic and environmental challenges as a core part of their business and organizational strategies. Alongside major multinationals, this shift is taking place in emerging markets, through the leadership of "Sustainability Champions" who employ strategies for "triple-bottom line performance" (economic, ecological and societal impact) and aims to increase access to their products for poor rural communities and thereby address malnutrition. Such strategies have come to be known as pursuit of "shared value" – which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. As a result, businesses employing these strategies do not see themselves standing outside civil society but rather as part of an emerging group of leaders acting in the common interest.

New patterns of economic and political power are creating a shift in the axis of development The traditional North-South development dynamic is being challenged by geopolitical and economic shifts, including foreign direct investment of emerging economies such as China's outward investment in Africa; changing focus of donor countries from aid to trade with key emerging market economies; and the new map of the fastest-growing economies in Africa, Asia and Latin America.

Strategic concerns of civil society leaders.
significant trends organized civil society is facing five key strategic issues:

i) Where will our funding come from?
ii) How can we better demonstrate accountability and impact?
iii) How do we stay relevant in and capitalize on a hyper-connected and youth-oriented world?
iv) How do we collectively engage to make an impact in global governance processes?

As the context in which civil society operates shifts, it is useful to reflect on how these forces will help to reshape relations between civil society, business and governments, examine who will take on a greater role in addressing societal changes and consider their relationship with the other stakeholders. Two questions arise in particular:

- Under what circumstances will business take on a greater role in addressing societal challenges?
- Under what circumstances will governments take on a greater role in addressing societal challenges?

Critical Driving Forces Reshaping Civil Society in the future. There are six critical driving forces that might significantly reshape the future context of civil society were identified:

- The level and sources of funding for civil society stakeholders
- The social and political influence of increasing access to technology
- The extent and type of citizen engagement with societal challenges
- The state of global and regional geopolitical stability and global integration of markets
- The effect of environmental degradation and climate change on populations
- The level of trust in governments, businesses and international organizations

We conclude by reiterating the position of CSOs and development agencies as enablers, influencers and innovators in the quest for sustainable development of the communities. The fast changing landscape of financial and banking sector will need to build partnership with CSO actors to have financial resources that have impact on the society.


from google

fsduganda
Financial Sector Deepening

Financial Sector Deepening Uganda (FSDU) is an independent not for profit company committed to promoting greater access to financial services in Uganda. We aim to provide a deeper, broader and more inclusive financial sector with a focus on low-income individuals (particularly women) and Micro, Small and Medium Enterprises (MSMEs).

The Financial Inclusion Landscape

Uganda is a low-income, landlocked country of 38 million residents with limited transportation, water supply systems, sanitation and electrical infrastructure. Almost half of the adults living in Uganda lack access to formal financial services (46%), while 2.6 million people (15%) have no access to any financial services and are classified as 'financially excluded'. Although the poverty reduction rates have improved in the last two decades, a lot still needs to be done. In 2013, 34.6% of the household population lived on $2 a day.

However, over the last eight years the number of adult Ugandans accessing formal financial services has more than doubled. This is largely driven by the growth in mobile money services rather than the use of formal banking services. In 2016, more than 7 million adults were reported as active users of mobile money services. Mobile money has registered tremendous success because of its ability to reach areas previously inaccessible by the formal banking sector.
FSD Uganda endeavors to leverage technology like the mobile phone and other digital technologies to make financial services more accessible, affordable and user friendly to the previously excluded population.

Banking Landscape

Currently there are 24licensed commercial banks in Uganda and according to the International Monetary Fund (IMF) Financial Access Survey, the number of commercial bank branches stood at 578 at the end of 2015. However, 1 out 2 of these branches is in the 3 largest cities in Uganda, with 70% of all branches in urban areas.Furthermore, for every 100,000 adults, there are only 3 commercial bank branches.This, in country where 71.5% of the population resides in rural areas.
If commercial banks are to extend the financial inclusion frontier, they need to invest indigital financial services or technologies which has the potential to break down barriers to access to finance opening up new opportunities for reaching poor people in the remotest areas of the country.

FSD Uganda is working with both public and private sector players to address the financial inclusion challenge, through a 3 pronged approach. We provide technical support to government and other policy stakeholders to influence policy and regulations in order to have an enabling environment for the development of innovative pro-poor products and services. For instance we supported the Central Bank in the development of the Financial Institutions Act Amendments to allow for Bank assurance, Agent banking and Islamic Banking, URSB to review of the legal and regulatory framework for movable collateral and securities interests; In partnership with UNCDF MM4P and CGAP, we provided support to Bank of Uganda (BoU) and Mobile Money Service Providers (MMSPs) to agree on a framework that would make it possible to seamlessly send digital money across different mobile money platforms (i.e. mobile money interoperability).

Secondly, we commission research to increase knowledge and understanding of the Ugandan financial sector to support more effective decision-making in both public and private sectors. In the last two years FSD Uganda has published research in the areas of mobile money, Agency Banking, insurance and education sector finance.

While the third approach facilitates retail financial service providers, encouraging them to develop and test new affordable services. FSD Uganda is working with the Uganda Bankers Association and other financial sector players to aid their preparation for the adoption of the Agency Banking model. We are also providing technical assistance to develop scheme rules and policies for the mobile money industry and Central Bank in their push for interoperability. Through this approach FSD Uganda, also facilitates the linkage of savings groups (like SACCOs, VSLAs) to Commercial Banks and Credit Institutions by leveraging technology.

Finance Trust Bank Corporate Social Responsibility – Investing in the future we want.

Mrs Annet Mulindwa Nakawunde

Managing Director—Finance Trust Bank

Finance Trust Bank is a fully fledged commercial bank categorized under tier 1 financial Institutions in Uganda. The company has a history of 33 years, having started as an NGO to empower women economically and socially. Today, Finance Trust Bank has 36 branches which are strategically positioned all over the country serving over 415,000 customers of whom 40% are women and youth.

In 2016, Finance Trust Bank set out to meet the following objectives in its Corporate Social Responsibility initiatives.

-Grow Finance Trust Bank image and fulfil the expectations of its owners, employees, consumers/clients, community and the public at large.

-Help communities resolve social problems which may not be the direct outcome of our business operations.

-Assist Communities achieve the sustainable development goals.

Finance Trust Bank was able to implement its various objectives through various activities. Our theme for 2016 was "Investing in the future we want" The corporate social investment directly ties into several Sustainable Development Goals which include;

Education

Financial Literacy Workshops

In a bid to put ink to the tagline *Putting Women First*, Finance Trust Bank decided to launch annual financial literacy workshops for women offered free of charge. In the first year, the Bank invested over 100million in the financial literacy workshops. The regional workshops were attended by over 3000 women in the Kampala, Jinja, Mbale and Mbarara. In addition to this, Finance Trust Bank trained over 3,000 women in Busoga region alone in partnership with various organizations that mobilize women. Due to the success of the trainings, Finance Trust Bank has decided to continue with regional workshops on an annual basis.

The purpose of the financial literacy workshops is to help women gain knowledge that will help them achieve Financial success. The training touches key subjects on basic book keeping, budgeting and also addresses gender barriers in access to and management of finances. The workshops also have helped to bridge the financial knowledge gaps exhibited in debt management, as well as choice of financial products.

In addition to Financial literacy, the Bank has gone a step ahead to finance entrepreneurship and skills development for women. In this regard, funds were donated to Busega Catholic Women's guild towards support of the project to train women in production of four quire books for sale as an income generating activity for the women's group.

Health

Donation of Theatre bed to Mukono Health centre IV

Every business that serves human beings indeed survives if the health of its clients is good. In this regard, as a bank that focuses on the wellbeing of women, Finance Trust Bank donated an operating table, ward screens and notice board worth 8.3 million to Mukono Health Centre IV. These items were officially given to the Health centre in a ceremony that was graced by the Mayor of Mukono Town as well as the MD of Finance Trust Bank. This donation will enable the community of Mukono especially women access better health services. The operating table was donated after discovering that the one in use was broken and yet the Health centre serves over 600 women who go to deliver babies of which over 90 are C-section deliveries monthly.

Repair of Ambulance

Finance Trust Bank funded the repair of the Buyende District Ambulance. The ambulance serves all Government Health centers in Buyende district.

The Gender Equality Seal

Also in 2016, Finance Trust Bank committed to implementation of the United Nations Development Program's Gender Equality seal. By implementing the seal, Finance Trust Bank will carry out key activities to eliminate gender-based pay gaps, increase women's roles in decision-making, enhance work-life balance, enhance women's access to non-traditional jobs, eradicate sexual harassment at work, using inclusive, non-sexist communication. Finance Trust Bank's Human resource policies are very loud on ensuring that the Bank's staff are properly catered for in regard to welfare, working conditions, leave administration, maternity leave as well as ensuring women are represented in key decision making positions. Our communication as a Bank enhances the image of women and is always aspirational.

> "Finance Trust Bank's Human resource policies are very loud ....welfare, working conditions"

Future plans

Due to the tremendous success of the Financial literacy workshops, Finance Trust Bank has decided to make them part of its annual programs since the task of empowering women is at the very heart of the Bank. Finance Trust Bank shall add to financial literacy workshops , free health camps and support to district sanitation programs.

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FINANCE trust BANK
Putting Women First

THE EVOLUTION OF COMMERCIAL BANKING IN UGANDA

This paper looks at the history of banking in Uganda and explores the banking sector reforms that have taken place to date and the current state of affairs in the sector and attempts to look at the future of banks given the digital proliferation.

The evolution of the banking sector has been characterized by bank closures, mergers and acquisitions.

1.History of Banking in Uganda

Uganda's banking sector has evolved from the first commercial bank established in 1906- the National Bank of India which later became the Grindlays Bank and is now the Stanbic Bank - to the current 24 commercial banks, six credit institutions and three Microfinance Deposit-taking Institutions (MDIs). These are in addition to the rapidly growing semi-formal and informal financial sector in the country. The sector has also undergone several policy, legal and regulatory reforms with various degrees of results.

The evolution of the banking sector has been characterized by bank closures, mergers and acquisitions. Before the country's independence in 1962, the banking sector was dominated mainly by foreign owned commercial banks (Beck and Hesse, 2006). In addition to the National Bank of India, Standard Bank was opened in 1912 and the Bank of the Netherlands was opened in 1954 and later merged

with Grindlays Bank.
Uganda Credit and Savings Bank which became Uganda Commercial Bank (UCB) in 1969 was established in 1965 by an Act of Parliament. This was the first local commercial bank established in the country. Bank of Baroda was established, first in 1953, but regularized as a commercial bank in 1969 with the enactment of the Banking Act of 1969.This was the first legal framework for regulation of the banking sector following the country's independence. The Bank of Uganda – country's central bank – which was established in 1966 under the Bank of Uganda Act (1966), was followed by the establishment of the Uganda Development Bank under the Uganda Development Bank (UDB) Decree (1972).
With the establishment of UCB and UDB, the government-owned banks dominated the banking industry. UDB received all foreign loans and channeled them to the local companies for development;

UCB, with the biggest number of branches (about 67 in number), handled the majority of the customers while the East African Development Bank (established in 1967) handled the East African Community (EAC) business. By 1970, Uganda had more than 290 commercial bank branches but this number reduced to 84 in the established since 1906, the majority of which were established after independence, but more specifically following period between 1970 and 1980's following political instability and economic decline during the same period.

Through attachment of advisors from the World Bank and IMF headquarters in Washington D.C, these international financial institutions had a big bearing on Uganda's financial sector reforms. Furthermore, the IMF and World Bank trained staff of the Bank of Uganda and Ministry of Finance and Economic Development, to develop capacity in these institutions to implement the financial sector reforms as dictated by the IMF and World Bank. Regular IMF and World Bank missions ended with conditionality attached to attainment of specified

performance targets. Effectively, the World Bank and IMF influenced Uganda's banking sector reform process mainly through the Policy Framework Papers (PFPs), which were the major instruments of economic reforms in Uganda starting from 1988 (IMF,1999).

Through "performance benchmarks", which essentially was a list of actions the Government of Uganda was required to undertake if the country were to continue benefitting from foreign aid, the IMF ensured that Uganda remained on a very firm course of economic reforms (GOU, 2003). Examples of performance benchmarks included liberalization of the interest rate market, closure of failing banks, creation of Non-Performing Assets and Recovery Trust (NPART), liberalization of the foreign exchange market, development of new legal and regulatory framework for the banking sector, assigning the privatization

of UDB to the Privatization Unit and engaging a privatization advisor to handle the privatization, and implementation of internationally accepted standards in banking – particularly the Basel standards.

Bilateral donors such as the German Technical Cooperation (GTZ), Swedish International Cooperation for Development Agency (SIDA) and the Danish International Development Agency (DANIDA) influenced the reform process through provision of technical support in the form of providing technical advisors, training of local staff and provision of aid in form of grants and loans.

While several banks have been established in Uganda, equally a significant number has been closed, merged or acquired. Before 1962, four commercial banks were established and were characterized by mergers. Between 1962 and 1988 prior to initiating financial sector reforms, nine banks were established or restructured. These included foreign banks such as the Arab Libyan Bank for Foreign Trade and Development which was renamed Tropical Africa Bank Uganda Ltd in 2006 and Diamond Trust Bank which was revived in 1997. Local private banks such as Centenary Rural Development Trust and Sembule Bank Ltd were established, but the banking sector was dominated by UCB – the Government-owned commercial bank.

With privatization and divestiture of Government from provision of banking services the dominance of state-owned banks in the 1960s, the 1970s and most of the 1980s, decreased as several private owned banks were opened in the 1990s- the central bank licensed over 10 private banks between 1988 and 1999 to operate in the country. A significant number of these banks were private local banks. They included the Nile Bank Ltd, the Greenland Bank Ltd, the Cooperative Bank Ltd, the Gold Trust Bank Ltd, the Teefee Bank Ltd and the TransAfrica Bank Ltd. Between 2000 and 2009, 10 banks were licensed with 70 percent licensed in 2008 and 2009 due to on and off moratorium imposed on licensing for an extended period of time from 1996 to 2007. There were also non-bank financial institutions established during this period including the International Credit Bank Ltd and a number of other credit institutions and microfinance deposit taking institutions.

The banking sector evolved partly as a result of reforms implemented in the financial sector. From independence in 1962 up until 1969 Uganda pursued a mixed economy policy, whereby the public sector worked with the private sector. For example, while exporters were required to surrender their foreign

exchange earnings to commercial banks at the prevailing official exchange rates, the banks held foreign exchange earnings and re-allocated them to importers. The exchange rate was fixed, but the trade policy was relatively liberal. Interest rates were administered, and loans granted to selected sectors, including small farmers, usually in kind through the co-operative movement, practices which were a common feature of the pre-1987 reforms instituted by the National Resistance Movement Government.

In 1987 the Government launched a Comprehensive Economic Recovery Programme (ERP) to bring down and stabilize the inflation rate and reduce imbalances in the economy (World Bank, 1990, 1993; Kibirango & Kasekende, 1992; Bategeka, 1999). While stabilization policies were designed to restrict the demand within the overall resource envelope to restore internal financial equilibrium, SAPs were designed to increase efficiency, stimulate the economy and encourage economic growth.

As the wider economy was being reformed, the process of financial liberalization rather belatedly followed, starting in 1988. New laws pertaining to financial sector were enacted and the monetary policy formulation and implementation shifted from an administered to a market-based approach, where open market operations (OMO) became the major means of influencing the level of money supply in the economy. For example, the Bank of Uganda Act, 1966 was replaced by the Bank of Uganda Statute, 1993 (Government of Uganda, 1993). The Government also undertook to divest from owning any financial institution, a policy objective that was fully realized in 2002, when the last government-owned commercial bank, UCB was privatized. Broadly, the measures included divestiture of Government from providing financial services, thereby creating increased space for participation of the private sector in the provision of financial services, building bank supervision capacity in the central bank, improving the quality of commercial banks' assets by removing the non-performing loans from the balance sheets of commercial banks and putting them into a NPART, and liberalizing interest and exchange rates.

Prior to the reforms, the banking sector was bedeviled with severe challenges such as negative real saving and lending interest rates, rising non-performing loans, inefficiency in the distribution of credit, and a weak supervision of the sector by the central bank. The reforms were accordingly geared towards promoting efficiency and strengthening of the banking sector.

The banking sector evolved partly as a result of **reforms implemented in the financial sector.**

Banking Sector Reforms

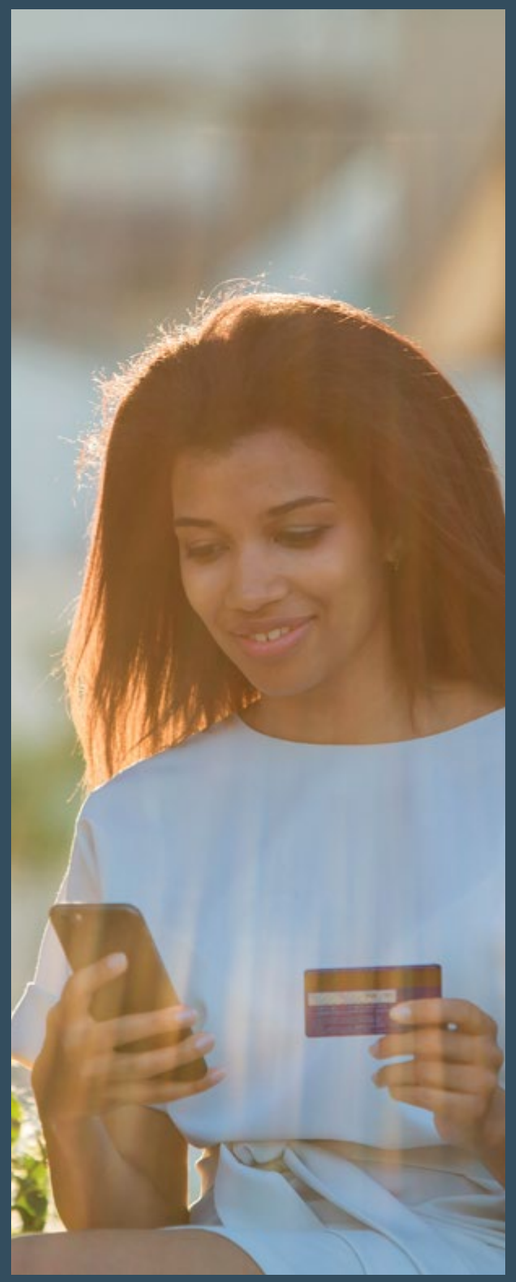
Reform	Content	Period
Interest rate liberalization	Interest rate regulations changed by adjusting nominal interest rates to match inflation	1989
	Treasury bill market changed from ad hoc issuance to a market based auction system through which interest rates were determined	1992
	Interest rates were fully liberalized and the Central Bank switched to a new interest rate management regime that used monetary policy instruments with treasury bill interest rate as an anchor	July 1994
	Treasury bonds were introduced as monetary policy instrument	2004
Reduction in directed credit (lending by the government or central bank directly or indirectly)	Coffee financing was withdrawn from commercial bank	1988
	Direct financing of coffee procurement by the Bank of Uganda (BOU) was reversed	1991
	Rural farmers scheme continued	1994
	Development finance operations at the BOU continued	2003
Privatization of financial institutions	Government sold its shares in 3 banks jointly owned with foreign Owners	1994
	Government sold 49 % of its shares in UCB to a bank in Malaysia but reversed the sale and placed UCB under the Bank of Uganda management in 1999.	1994
	UCB was finally sold to Stanbic Uganda Ltd.	2002
	Government also divested its shares in Bank of Baroda and DFCU Bank in 2002 and 2004 respectively	2002, 2004
Legal and Regulatory reforms	Bank of Uganda Statute was enacted	1993
	Financial Institutions Statute, Microfinance Deposit-taking Institutions Act, and Financial Institutions Act and Foreign Exchange Act were enacted	1993, 2003, 2004
	Ban on licensing banks first imposed in 1996 for two years, extended in 1997 to 2000, and lifted in July 2007.	1996- 2007
Capital Account Liberalization	Controls on capital account were lifted. Citizens were allowed to hold foreign currency denominated assets and operating foreign currency denominated accounts in the domestic financial system and abroad. They were allowed to bring in capital for investment and take it out without restrictions.	1997
Liberalization of exchange rate regime	Dual exchange rate regime was adopted	1996
	Foreign bureaus were legalized	1990
	Foreign exchange auction system was adopted	1990
	Restrictions on current account transactions were eliminated to conform to Article VIII Status of International Monetary	
	Fund (IMF) Agreement	

2. The Current State

This characteristic of banking in Uganda has continued to limit access to financial services, especially to the majority of the rural population who are perceived to have limited effective, demand for financial services. In addition, most of the banks fund trade, implying that loan portfolios of these banks are not sufficiently diversified. The banks have also not entered into other businesses such as insurance, stock trading, assets management, etc. as a result of legal and regulatory restrictions imposed by the existing banking laws and regulations.

The concentration of banks in the urban centers however, means that there is still a big population not served by the formal banking system. A FinScope Uganda survey done in 2006 established that the formal banking sector serves only 18 percent of the potential clients (FinScope Uganda, 2007). Thus, banking sector reforms have hardly led to substantial reduction in the gap between the formal and informal sectors of finance. There is widespread argument that with rapid population growth in Uganda, the informal financial sector has expanded with liberalization of interest rates and increased participation in saving and credit societies and microcredit programmes.

Nevertheless the reforms in the regulatory regime have been translated into a sound and safe financial system which has improved the management monetary policy and the stability of the macro economy. While the wider legal systems still require substantial reforms, commercial legal system has registered significant improvement. Coupled with a much stronger oversight of the Bank of Uganda and improvement in the governance system of the banks themselves, dishonest financial behavior and/or mismanagement of financial institutions have reduced



3.The Future

The Future is Digital!!
"Digitalization is killing financial services the way we have known it.... But there is no reason to mourn the loss" Even in an environment of rapid change to the design, delivery and providers of financial services, the core needs these services fulfill remain the same. Six core functions that comprise financial services remain i.e.

- Payments
- Market Provisioning
- Investment Management
- Insurance
- Deposits & Lending
- Capital Raising

3.1Payments: How will customer needs and behaviours change in an increasingly cashless payments landscape?

Innovations will make payments more cashless and invisible in the future, while enabling data-driven engagement platforms for customers

The payments industry has continuously evolved over time, but there are still some challenges to the world cashless Electronic payments have grown in popularity, displacing cash and cheques.

3.1.1Context / Innovation

- A number of innovations have emerged in the past five years leveraging mobile devices and connectivity to make payments simpler and more valuable. Examples range from digital wallets to automated machine-to-machine payments
- The majority of these innovations will modify front-end processes to improve the customer and merchant experience while leaving the underlying payments infrastructure undisrupted.

3.1.2Future of Payments

- These innovations will reduce the use of cash and make payments less visible to payers. They will also enable financial institutions and merchants to use data-driven customer engagement platforms.

  As more payment solutions allow customers to link their bank accounts for direct payment and seamless point-of-sale vendor financing, the use of credit cards could be displaced by these platforms.
- Customers may lose visibility into their payment choices, increasing their default cards' share of wallet and reducing the importance of some traditional differentiators like brand and design.
- The elimination of a need to carry physical cards and the emergence of payment decision support systems could support the proliferation of niche and merchant issued cards, splintering wallet share among many cards.

3.1.3Key Implications

- Success of any innovative payment solution will require a strong customer rationale to switch, as most customers do not consider the existing payment regime to be broken
- In an increasingly cashless future payment providers who can embrace emerging payment innovations to offer differentiated, value-adding digital experiences will be able to deepen their relationships with customers and take a dominant place in the changing market landscape

3.1.4 Key Characteristics of future Payments

- *Cashless:* More cash will be displaced by electronic transactions as payments innovations make it beneficial for customers to use payment cards even in small denomination transactions.
- *Back of Mind:* As more transactions become virtual and automated, more payments processes will become invisible to end customers, changing their needs and behaviours
- *Engagement* As payments and mobility becomes more integrated, the importance of payment transactions as a potential customer interaction point will increase for merchants and financial institutions
- *Data-Driven:* With greater adoption of electronic payments, more data will be accumulated from payment transactions, allowing financial institutions, services providers and merchants to gain greater understanding of customers and businesses
- *Increased Access to Loans:* As more payments are processed through electronic rails, financial institutions' visibility into individuals' and businesses' cash flow and spending patterns will increase, improving their ability to extend loans to customers previously less understood
- *Reduced Costs:* Because innovative solutions build on the existing infrastructure, which has very low variable costs, the cost of making electronic transactions will fall as electronic payments gain more volume

3.1.4 Benefits of Electronic Transactions

- *Convenience:* Reduces the need for customers and merchants to carry cash, reducing associated costs, including trips to banks, price inflexibility and opportunity costs (i.e., interest earned)
- *Efficiency:* Reduces the cash management costs for businesses and financial institutions as fewer bills are exchanged by hand and money movements are settled electronically
- *Traceability:* Enables a greater degree of visibility into the flow of money for financial institutions and regulators, facilitating taxation, transparency, and information gathering
- *Protection:* Protects customers and merchants from fraud and theft by documenting transaction records and reducing the need to hold cash

3.1.5Key Challenges Inhibiting a Cashless world

- *Merchant Adoption:* Electronic payments are not accepted by every merchant due to the infrastructure costs, high fees and settlement delays
- *Convenience:* Small denomination payments are often still conducted reducing the number of processing steps and time to complete a transaction
- *Accessibility:* Under-banked population does not have access to primary accounts and therefore only uses cash in transactions
- *Fraud:* Despite the safety measures increasingly adopted, electronic transactions create opportunities for fraudulent activities

3.1.6Common Characteristics of Successful payments innovations

- Simplicity: Payments innovations allow customers to make payments in a single tap or automatically by leveraging connectivity (e.g., wireless network, near-field communications)
- Interoperability: Most innovative payment solutions are not restricted to a single payment method, allowing customers to manage and use a variety of credit cards, debit cards or bank accounts for payment
- Value- Add Services: Many innovative solutions offer value-add functionalities in addition to payments, enabling merchants and financial institutions to interact more closely with customers and deliver additional value (e.g., loyalty, offers

3.1.8What does this mean for financial institutions?

- Reduced control over customer experience: Financial institutions may lose some or most control over their customers' transaction experience as digital wallets consolidate digital payment platforms
- Customer targeting: Leveraging data on specific customer segments will become an essential component of strategies to

from google

gain a dominant share of wallet among those segments that encourage or drive more frequent usage in a diversified market

- Merchant relationships: Financial institutions' ability to partner with merchants will become critical component of strategies to drive merchant-specific usage, enable merchant-issued credits, or become a preferred card on merchant platforms.

- Revised margin structure: Margins on the current payment and settlement transactions will need to be restructured as competitive pressure grows from alternative rails

4.Future of banking in a digital era

These scenarios may apply to the future of banking in age of digitalization.

1. **Increased competition.** "The competition will come from non-traditional competitors in big tech. Many start from scratch truly 'digital' banks will carve out a niche for themselves. Some of the big traditional banks that don't embrace partnerships with fintech or generate their own innovations will fail."

2. **Unbundling will continue.** Banking will be "more fragmented with incumbents losing more and more pieces as consumers build their own suite of products from a multitude of providers."

3. **Increased specialization.** Banking will be "split between specialty players and customer-broker combining a series of low-cost marketplaces and platforms to serve specific customer needs with speed and adequate value for money. [Banks will be] severely hit by over-the-top competitors, scaling down size and employees."

4. **Remain dominant.** Banks "will bring to market competitive products that start-ups might have gained traction in the market (either through internal development or acquisition).

5. **Competing beyond financial services.** "Banks will become marketplaces competing on a wide range of business models."

6. **Customer-centric.** Banks will be "driven by customer needs, not banks' needs"

7. **Better functionality in some areas, worse in others.** Banks will be "slightly improved in areas of mobile and peer-to-peer payment, more rigid and disliked in area of account opening, lending and payments."

22 | BRIEF OF AUTHORS

	Article	Author(s)
1	Fintech is the new normal but brings with it Regulatory headaches.	**Brian Kalule** is an advocate of the High Court of Uganda and a Partner at Bowmans Uganda
2	Towards a global cyber security regulatory framework for the banking industry: Which way for Uganda?	**Silver Kayondo** is an Advocate of the High Court of Uganda. He holds a Masters in Law from the University of Pretoria, South Africa specializing in Banking and Finance law.
3	Cyber security: emerging risks and threats	**Kenneth Muhangi** is an advocate of the High Court in Uganda. He holds a Bachelors Degree in Law LLB (Hons) from Uganda Christian University, Post Graduate Diploma in Legal Practice from the Law Development Centre and a Masters degree, LLM (International Commercial Law) from The University of South Wales.
4	Addressing "too big to fail" in the Ugandan context: Policy Lessons from Crane Bank failure	**Silver Kayondo** is an Advocate of the High Court of Uganda. He holds a Masters in Law from the University of Pretoria, South Africa specializing in Banking and Finance law **Brian Kambaho Karogo** is an Advocate of the High Court of Uganda. He holds an LL.B (Hons) degree from Uganda Christian University, a Post Graduate Diploma in Legal Practice from the Law Development Centre and a Post Graduate Diploma in Tax and Revenue Administration from the East African School of Taxation.
5	Key challenges faced by government in accelerating financial deepening and inclusion.	**Simon Mutungi Muhairwe**, is an Advocate of the High Court of Uganda, a Lecturer at the Faculty of Law, Kampala International University and is currently enrolled at the University of Cape Town where he is pursuing a Master of Laws (Commercial and Corporate law).
6	Institutional Framing for Financial Deepening and Inclusion in Rural Uganda	**George Okello Candiya Bongomin** (Phd), **Joseph Mpeera Ntayi** (Phd) & **John C Munene** (Phd) are Professors at Makerere University Business School, Kampala, Uganda,
7	Customer Preference- Can banks cope with the pace?	**IshakKamaradiMasembe** holds a Bachelor of Statistics Degree, a Master in Procurement and Logistics Management and a Doctorate in Management. He is also a Certified Professional Banker. He is currently employed as a Senior Inspectorate Officer with the Inspectorate of Government, which is the government ombudsman.
8	Cyber Security: Emerging risks and threats	**Kavuma Douglas** is a Banking Officer with Bank of Africa, Uganda
9	Radical Reform in the Financial Services Sector: A blue print for Prudential Regulation of Financial and Banking Services Sector In Uganda.	**Onyango George** holds a Bsc and CPA

The Financial Intelligence Authority – Uganda

Mr. Sydney Asubo
Executive Director FIA

The Financial Intelligence Authority (FIA) is a Government of Uganda agency established on July 1, 2014 under Section 18 of the Anti-Money Laundering Act (AMLA), 2013, to coordinate the implementation of the country's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime. It is the central national agency in Uganda, responsible for the receipt and analysis of financial disclosures from accountable persons and dissemination of financial intelligence to competent authorities.

The FIA collects and collates information on suspicious transactions, large cash and monetary transactions and cross border movement of cash and negotiable bearer instruments from reporting entities, especially banks and other financial institutions. After the required analysis, the FIA sends financial intelligence reports to the appropriate law enforcement agencies.

The AMLA, 2013 mandates theFIA to inform, advise and cooperate with other competent authorities (Section 20 (d)) and to obtain any information from accountable persons, supervisory agencies and law enforcement agencies in the performance of its functions (Section 21 (j)). The FIA therefore seeks to build strategic partnerships with key stakeholders including reporting entities, supervisory agencies, law enforcement agencies and other financial intelligence units.

Vision

To be a centre of excellence in combating money laundering and terrorism financing.

Mission

To foster the integrity of the financial system through effective detection and prevention of financial crimes.

Strategic Goals

- Ensuring a safe, secure, compliant and efficient operating environment
- Improving the collection of information
- Improving the enforcement of compliance with the AML Act
- Improving the quality of financial intelligence
- Aiming to the best utilisation of financial intelligence
- Promoting the integrity of Uganda's financial system
- Promoting public awareness on AML/CFT issues
- Coordinate the drafting of the National AML/CFT Strategic plan
- Coordinate the implementation of the National AML/CFT strategy action plan

Money Laundering and Terrorism Financing

Money Laundering (ML) is the act of obscuring the true origin of illicit funds and making them appear legitimate. The Money laundering cycle can be broken down into three stages, namely: (1) Placement, where proceeds of crime are introduced into the financial system to relief a criminal of his "dirty" assets; (2) Layering, where the illicit funds are separated from their source to conceal their origin, usually via complex and cross-border transactions; and (3) Integration, where the illicit funds are returned to the criminal for his use and benefit. Given that a profit motive underlies most crimes, the effective combating of ML can deal a significant blow to criminal activities.

Terrorist Financing (TF) is the act of soliciting, collecting or providing funds, from both legal and illicit sources, with the intention of supporting terrorist activities or organizations. While a money launderer's main aim is to conceal the source of funds, a terrorist financier aims mainly to conceal the use of funds.

With the expansion of both physical and electronic financial infrastructure, ML and TF activities are becoming increasingly sophisticated and difficult to detect. The ease with which money and valuables can now move across borders means that regulatory authorities and enforcement agencies within and among countries must be able to cooperate and coordinate effectively to address emerging risks.

Mutual Evaluation Report

Uganda underwent the second round of the mutual evaluation on AML/CFT regime by ESAAMLG mid-year 2015 using the FATF new methodology. The FIA coordinated the mutual evaluation exercise, with the Executive Director being the national contact person for ESAAMLG. A wide spectrum of AML/CFT stakeholders were interviewed to assess both the technical compliance with the FATF Recommendations as well as the effectiveness of the AML/CFT systems. The report can be found on the ESAAMLG website.

National Risk Assessment (NRA)

The Financial Action Taskforce recommendation 1 of the new International Standards on combating Money Laundering and Financing of Terrorism and Proliferation, requires countries to identify, assess, and understand the money laundering and terrorist financing risks and ensure that their AML/CFT regime adequately addresses such risks. In MER it was observed that Uganda is non-compliant on recommendation 1.

To address the deficiency, The Hon. MFPED (Ministry of Finance, Planning and Economic Development)appointed the Financial Intelligence Authority to coordinate the exercise of undertaking AML/CFT National Risk Assessment. The NRA exercised commenced with the composition of nine working groups which cutsacross all the stakeholders MDAs and private sector players.

The NRA exercise wasundertaken using the World Bank Tool methodologywith the technical support from the Basel Institute on Governance and funded by DFID- SUGAR project. The draft NRA Report was submitted to the Minister of Finance in April, 2017 and is now awaiting Cabinet Approval. Upon approval the Report will be given wide circulation, given the many policy and operational recommendationscontained therein.

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UGANDA BANKERS' ASSOCIATION

The Research & Policy Development Desk (RPD) at UBA

The research function provides any organization with a platform for creativity and innovation to flourish in its space as well as assure sustainability. Innovative breakthroughs have happened only because of painstaking efforts of the R&D function.

Uganda Bankers Association is introducing a research & policy development desk that will be responsible for leading UBA's Research & Policy Development effort to support initiatives & interventions proposed for the banking & wider financial sector.

Key deliverables for this desk include:

- To develop and lead high quality policy development initiatives and research on the banking sector, including trends, key issues & drivers impacting on or influencing the industry and national processes and debate therein.
- To develop research partnerships in banking & finance, in collaboration with other agencies (local, regional, international including academia) and research networks, consulting firms etc to enable UBA generate new and original policy insights.
- To develop and deliver advocacy strategies to influence relevant stakeholders and achieve policy changes at industry and national level.
- To undertake research assignments, consultancies, capacity building, develop materials and monitor trends in the external environment, and identify opportunities to promote UBA's objectives.
- To organize, arrange for or represent UBA at high level research & advocacy fora, meetings, including being the primary anchor of the UBA Annual Banking Conference.
- Produce & disseminate research findings, publications, bulletins, position papers etc as appropriate through cross-organizational working groups and civil society networks.
- Provide the directorate of Communications & Corporate Affairs of UBA with raw material for appropriate and effective national, regional & international communication & stakeholder management.

Collaboration

Collaboration involving partner organizations with whom ideals and goals are similar or can be aligned can deliver insights and create capacity for much higher impact and it is the intention of UBA to remain open to collaboration.

Benefits envisaged out of collaboration

- Improved quality of thought process because of the ability to leverage each other's strengths.
- Stimulation of fresh thinking & re-energizing parties involved: Collaboration facilitates people learning together with those whose views on any particular organizational challenge are framed from a different set of knowledge and experiences. Solutions can be synthesized that are beyond the knowledge of any one person/institution. When these different groups of people work together it can lift the group to new ways of thinking thus re-energizing every member.
- Creation of funding opportunities to promote the above.
- Promotion of workforce development.

Potential Collaboration Partners

- Individuals who believe in research, information gathering and dissemination.
- Institutions with ideals/objectives similar to UBA.
- Institutions responsible for or practicing or building capacity in the areas of business management, economics, finance, banking, commercial & environmental law, ICT/ Digital Finance with sufficient industry exposure and demonstrable experience in applied research, gathering and evaluating relevant information in the above subject areas.

Preferences will around institutions who demonstrate the following,

- Significant track record in publishing of policy analysis, advocacy and proven interest and focus on applied research.
- An ability to link research and policy debates, and communicate effectively with a variety of non-specialist audiences and to harness these relationships to achieve policy change.
- Ability to exercise the required technical and professional expertise to the highest standards and promote/share best practices.
- Good contacts in the relevant fields, including academic/research world, contacts with Regulators, DFIs, NGOs, & other international agencies.

The Ask

UBA will seek to partner and collaborate with interested individual persons or firms to bring alive the RPD desk and invites such firms to express interest in writing enclosing a profile or their firm/institution.

The shape and extent of collaboration shall be defined and agreed on between the two parties in a separate MOU clearly stipulating the terms.

Interested parties may channel their expressions of interest to:

The Executive Director
Uganda Bankers' Association.
Plot 10 Buganda Road
P.O.Box 8002, Kampala
mailto:secretariat@ugandabankers.org

UGANDA INSTITUTE OF BANKING AND FINANCIAL SERVICES
UIBFS

ABOUT US:

UGANDA INSTITUTE OF BANKING AND FINANCIAL SERVICES is a comprehensive, integrated member based entity found in Kampala-Uganda and covering the East African Area. It Started out as a Centre for the Chartered Institute of Bankers, UK (now London Institute of Banking & Finance) and has been in existence as an autonomous body since 1990, initially known as the Uganda Institute of Bankers (UIB) and since 2013 renamed The Uganda Institute of Banking & Financial Services (UIBFS).The Institute renders her services by providing instruction, examination and certification in the areas of Banking and Finance. It is the only body in the country offering professional certification in banking. The Institute is a member- based entity comprised of two broad categories, that is:
(a) Corporate Members: comprising Central Bank, Commercial & Development Banks, Micro Deposit Taking & Credit Institutions
(b) Individual Members: categorized as Fellows, Associates, Student and Ordinary Members

We apply proven, industry-agnostic training program development processes that work for both individuals and the financial and banking sector. The key to our process is in-depth, up-front research that we use to assess internal and external perspectives on your needs to formulate a unique creative training program and approach.

We have provided effective Banking and Financial training programs to a growing list of highly satisfied students, a majority of whom are leaders in their sectors and our success has been recognized on a number of occasions as testified by a number of satisfied former students.

We take special pride in our skills enlisting the services of a sizeable pool of trainers drawn from a mix of academic and experienced practitioners to provideviable and successful training programs and analysis to students.

We work closely with other Banking Institutes in Tanzania and Kenya and administer East African Banking Exams in line with the current drive for regional co-operation in East Africa so as to build strong relationships and drive increased membership.

Our Exams are moderated by Fellows of the Chartered Institute of Bankers, London and we also work with other bankers 'Institutes in Africa and globally. We are also a founding member of the Alliance of African Institutes of Bankers, (AAIOB), and follow a curriculum as prescribed by the Alliance.

We have NCHE accreditation and Certified for ISO9001:2008 Quality Management Systems and also affiliated to Makerere University.

OUR VISION

"A center of Excellence in Financial Services Training".

OUR MISSION

"To promote professionalism within the financial services sector through the provision of market driven trainings, research and consultancy".

OWNERSHIP AND GOVERNANCE:

The Institute's governance structure consists of a council (advisory) and a Board of Directors both of which are comprised of CEOs of Banks and other eminent financial professionals. Membership is composed of two broad categories namely;

- 32 Corporate Members (presently all banks and other licensed financial institutions) as well as
- Individual Members (classified by rank as Student, Ordinary, Associate and Fellow).

Since incorporation in 1990, Uganda Institute of Banking and Financial Services – UIBFS operates as a company limited by guarantee with a governance structure comprising a Council which plays an advisory role and Board of

Directors selected from eminent personalities in the Banking and Financial Services Industry for governance and policy oversight. The Governor of the Central Bank (Bank of Uganda) is the Patron of the Institute and the Supreme Organ of the Institute is the Annual General Meeting which appoints the Council and the Board of Directors. The institute also has a full time secretariat (management team) that coordinates its operations on a day today basis.

Regional and international Collaborations.

The Institute is a founding member of the Alliance of African Institutes of Bankers (AAIOB), a continental body that promotes training standards in banking and finance. The Institute also collaborates with several renowned entities in banking & finance education such as the London Institute of Banking & Finance, Chartered Institute of Securities & Investment, Frankfurt School of Finance & Management. UIBFS is also an active participant of the World Conference of Banking Institutes a global platform for appraising the achievements and challenges faced by the banking sector.

WHAT WE DO:

Our range of services spans the entire Banking and Financial life system focusing on building capacity in the financial sector. We deliver international best practice, knowledge based capacity building programs and value adding research outputs that are responsive to the needs of the financial sector in the region.
Our teaching methods and techniques are consistent and have been benchmarked against international standards and best practices.
We maintain quality to ensure that our students are up to accredited management standards and we are a wealth of information on leading best practice frameworks, up-to-date, informed and inspired through research.
We are an authority on the financial sector within the region.

OUR OFFERINGS -are categorized into the following broad focus areas**:**

Our Training Programs are a mix of Standardized Professional Courses, Specialized Certifications (Up to 12 months), Academic Courses, Short and Executive Courses (1 – 5 days), practical and affordable Computer Training and IT solutions in Banking and Microfinance tailored specifically to you.

The Professional Courses enable trainees to obtain qualifications and competencies required and desired by the finance and banking industry in Uganda.

Tailor-made Courses are geared to meet the needs of Banking and Finance Institutions that operate in a dynamic environment.

Professional Courses Offered:

- Certified Professional Banker gate way to Associateship and fellowship
- Certificate in Banking
- Diploma in Microfinance
- Certificate in Credit Management

Academic Courses Offered:

- ***Masters of Arts in Financial Services*** –Awarded by Makerere University
- **Post Graduate Diploma in Agricultural Risk Management** (Evening and Weekend)

Other Courses on Offer.

Short Skills Courses in Banking and Microfinance:

- Comprehensive Banking Skills Course
- Open&Tailor made Courses, geared to a Specific Institution's requirements
- Specialized program such as Appraisal of Agribusiness and Agricultural Value Chain Financing, ACI FX Certificate.

Non Traditional Training

- Mentoring Program – currently offered to young women professionals
- Project based Training – in the offing.

***Soft Skills Courses in Collaboration with Pace Maker Group*:**

- Effective Report Writing
- Effective Presentation
- Strategic Opportunity Management
- Strategic Goal Setting for Personal and Professional Development

Consultancy Services

The Institute prides in its outstanding capacity to provide consultancy services to a wide range of clients including banking and finance institutions, individual business firms as well as other players in need of expert information support for decision making. The areas of specialization include but are not limited to micro-finance, micro-scale banking, marketing of financial services to small and medium enterprises, investment in financial markets, as well as financial services business development.

Benefits of being member of UIBFS.

1. Professional status

Professional qualifications and Institute membership form a solid base for a successful career in banking and financial services. Members benefit from the Institute's status, confidence and professional standing. Members are more employable with better career prospects – both inside and outside the financial services industry. In addition, an Associate (AUIB), or Fellow (FUIB), member is entitled to use the relevant acronyms after his/her name. These titles signify a highly rated, competent, and professional banker, a product of the Uganda Institute of Banking & Financial Services, operating within the confines of the Institute's Code of Conduct.

2. Access to the Institute library (Physical and Online Resources)

The Uganda Institute of Banking and Financial Services' Library (UIBFSL) is also a one stop centre for information, documentation and research services on Banking and Microfinance in Uganda, as well as Business Information in general. The Institute library provides its users access to over 3000 books, over 50 Journal titles, produced both locally and internationally, Ugandan local newspapers, research services a documentation centre and all subscribed members of the Institute are eligible to access the Institute's physical and online library, including the ICT library, the internet and e-mailing services at a subsidized fee.

3. Schools, Lectures & Educative Forums (CPDs)

The Institute being a leading training body regularly organizes educative talks, schools and seminars. These are geared towards ensuring Continuous Professional Development of Institute members. The Institute hosts at least one such educative forum per quarter and members shall be eligible to attend these forums at concessional rates or at no cost at all.

4. Financial services magazine

The Institute produces the financial services magazine which is a professional magazines mainly addressing issues to do with the banking and microfinance industry and given free of charge to paid up members.

5. Social Gatherings

The Institute organizes social events for its members. These include public lectures, Annual General meeting, Annual sports gala and Annual Banker's dinner, Annual East African banking School Conference and Alliance of African

UGANDA INSTITUTE OF BANKING
AND FINANCIAL SERVICES
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Institutes of Bankers conferences. Members are able to interact at such a professional level and share ideas pertaining to their chosen profession. Such gatherings offer a lot of networking opportunities, thereby widening the capacity and prosperity of bankers. Members are eligible to partake in these events at either discounted rates or at no charge at all.

6. Other membership benefits

The Institute may, where need arises, recommend and act as referee for its members to take up responsible positions within the industry and the country at large. Such positions may be academic, managerial and or political but only subscribed members of the Institute are eligible for such recommendations.

STUDY METHODOLOGY

- Evening Classes
- Distance Learning
- Private Study
- E- Learning

UP COMING TRAINING PROGRAMMES JULY- DECEMBER 2017

Course	Minimum requirements	Study mode	Duration
Banking Certificate	Uganda Advanced Certificate of Education (UACE) with 1 Principal pass or equivalent.	Evening Distance learning Private	1½ year 1½ year 1½ year
Certified Professional Banker	**Either** (i) Banking Certificate (ii) A University Degree from a recognized Institution (iii) Any other recognized professional qualification like CPA, ACCA or Equivalent.	Evening Distance learning Private	2 years 2 years 2 years
Diploma in Microfinance	**Either** (i) UACE with 2 Principal passes and 1 subsidiary pass obtained at the same sitting or equivalent (ii) Banking Certificate (iii) Any other recognized professional qualification like CPA, ACCA or Equivalent.	Evening Distance learning Private	2 years 2 years 2 years
Certificate in Credit Management	**Either** (i) Banking Certificate (ii) A University Degree from a recognized Institution (iii) Any other recognized professional qualification like CPA, ACCA or Equivalent.	Evening Distance learning Private	9 months 9 months 9 months
Post Graduate Diploma in Agricultural Risk Management and Finance	**Either** (i) At least second class degree from a recognized University (ii) A holder a recognized professional qualification in Accounting, Diploma in Banking/Certified Professional Banker	Weekend	9 months

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