



TERMS OF REFERENCE FOR DEVELOPMENT OF A FRAMEWORK FOR TREATMENT OF GUARANTEES IN UGANDA

April 2025

Introduction

About the Uganda Bankers' Association

The Uganda Bankers' Association (UBA) is an umbrella organisation for financial institutions licensed and supervised by the Bank of Uganda (BoU). Established in 1981, UBA is currently made up of 34 members, including 24 Tier 1 Commercial Banks, 3 Development Banks, and 7 Tier 2 & Tier 3 Financial Institutions. UBA promotes and represents the interests of the member financial institutions; works closely with the regulator to promote financial sector growth; undertakes policy research on the banking sector; and acts as a platform for advocacy for a strong, vibrant, and respected financial services industry.

About Aceli Africa

Aceli Africa ("Aceli") is a market incentive facility to unlock finance for high-impact agricultural SMEs. Aceli aims to bridge the gap between capital supply and demand for agri-SMES in the East and Southern Africa region (Uganda, Rwanda, Tanzania, Kenya and Zambia) through:

- Increasing high-impact lending using financial incentives (portfolio first loss cover and origination incentive) to lenders. Aceli has specific targets to increase gender and youth inclusion, strengthen food security, and expand climate and environment practices.
- Expanding demand and strengthening lenders' capacity to serve it through (i) technical assistance to SMEs to address demand constraints and (ii) capacity building for lenders to address lenders' knowledge constraints about the sector.
- Strengthening the enabling environment through data and learning/continuous evaluations to inform policy.

Ultimately, Aceli wants to influence national governments to create a more favourable environment for agricultural SME finance, including (i) budget allocations that replace donor funding and promote inclusive agricultural growth and (ii) central bank regulations aligned to the promotion of agricultural lending.

The Uganda Bankers Association and Aceli Africa have a running partnership since May 2023 to drive advocacy efforts for the improvement of the enabling environment for the agricultural finance landscape in Uganda.

Background to the assignment

In early 2022, Aceli undertook a study to establish the existing policies that positively or negatively influence agri-SME lending. The focus was on the effect of central bank regulations on agricultural lending. The study revealed: (i) Capital Adequacy Ratios are more conservative in East Africa than Basel III; (ii) unintended consequences of International Financial Reporting Standards 9 which requires banks to set aside capital for Expected Credit Loss (ECL); (iii) Loan Classification/Provisioning not sector-specific; (iv) low appetite for alternative collaterals by lenders; (v) treatment of credit guarantees (risk-weighting of guarantees) where most banks use guarantees as a security enhancement and most central banks do not treat credit guarantees as risk-free instruments; and (vi) disconnect between what is agri finance within the banks and the Central Bank.

In November 2022, Aceli convened a stakeholder convening in Nairobi that discussed and prioritised policy areas to advocate for. The three identified most feasible central bank regulations that Aceli and partners are best suited to influence to increase capital supply include: An agriculture-specific prudential provisioning requirement considering seasonality, value chain complexities, and other risk factors while also protecting depositors; Review and harmonise Sector & Industry Classification (SIC Codes) and Treatment of credit guarantees.

A consultancy was commissioned to undertake a deep dive analysis of the issues highlighted above, and policy briefs were developed with specific recommendations. A technical working committee, which includes representatives from UBA, Aceli Africa, and BoU, among others, was then constituted to oversee the implementation of the recommendations.

The Assignment: Development of a Framework for the Treatment of Guarantees in Uganda

According to the policy brief on the treatment of credit guarantees in Uganda, most lenders treat credit guarantees as insurance/collateral rather than de-risking instruments because there is no clear regulatory framework for credit guarantees in Uganda. Guarantees are not considered in loan provisioning, which reduces the profitability of the lenders and the available capital to lend. As a result, credit guarantees have had little impact on increasing access to credit and terms to the borrowers.

All guarantees are treated the same regardless of the strength of the guarantor and the liquidity of the guarantee. The central bank should consider risk-weighting guarantees based on the type (funded vs paper), issuer, and coverage. This calls for the development of a detailed regulatory and supervisory framework for the treatment of credit guarantees in Uganda.

UBA is, therefore, seeking a qualified and experienced consultant to develop a detailed regulatory framework for the treatment of guarantees in Uganda.

Key tasks (Scope of Work) include:

1. Review Central Bank provisioning guidelines and Basel standards, specifically on the treatment of credit guarantees
2. Update the developed policy brief on the treatment of credit guarantees in Uganda, incorporating the Basel standards on the treatment and rating of guarantees.
3. Development of a detailed regulatory and supervisory framework for the treatment and rating of credit guarantees in Uganda.
4. Present and validate findings to the technical working committee and other stakeholders.

Expected deliverables

1. An inception report after meeting with the technical working committee.
2. Updated policy brief
3. Comprehensive regulatory framework for the treatment of credit guarantees in Uganda.

Minimum Requirements of the Consultant (s)

1. Strong understanding of central bank provisioning guidelines and Basel standards, specifically on the treatment of guarantees.
2. Previous experience in conducting loan impairments using BoU FIA and IFRS9 standards in a commercial bank in Uganda.
3. Prior experience in bank supervision and drafting regulations is an added advantage.
4. Minimum Qualifications: Master's in Finance & Accounting or a related field.
5. Excellent oral and written communication skills.

Timelines

The estimated duration of the assignment is 5 working days, including stakeholder validation.

Application process

Interested consultant/s can apply for the assignment by submitting the expression of interest to take up the assignment, with the following documents;

- a. Technical proposal
- b. Financial proposal, including professional fees.
- c. Curriculum Vitae (CVs)
- d. Evidence of executing similar work previously

Interested applicants should submit their application, supporting documents, to secretariat@ugandabankers.org with the subject line "UBA – Treatment of Guarantees Consultancy" no later than 30th April 2025. Only short-listed candidates will be contacted.