

Banks share concerns at the Annual Bankers Conference 2018

Bankers under their umbrella body Uganda Bankers Association, on Tuesday 17th July 2018, held their 2nd annual bankers conference under the theme **“Financial Sector Stability: Managing Risk in Growing & Fast Changing Environment”**

The conference that was officially opened by the Prime Minister noted that financial sector risk had evolved tremendously over the years and continues to change and crystalize from different angles.

The UBA Chairman Mr. Patrick Mweheire noted that in Uganda, Banks are currently operating in a challenging environment of high cost to income ratios, low coverage & penetration among the bankable population, increasing regulatory requirements and a population hungry for alternatives.

He highlighted that as a sector and arising from last year's conference, Banks were taking steps to review cost structures and put in place strategies to rationalize resources, leverage shared infrastructure to expand outreach & penetration and harness benefits that arise from economies of scale which can then be passed on to customers through lower transaction costs.

“We are structuring collaborations and building synergies for alternative & cost effective service delivery he said.

Mr. Mweheire thanked the Government of Uganda for various policy & legal frameworks that have enabled the financial sector register good milestones including legislative & governance frameworks that addressed money laundering & financing of terrorism concerns.

The UBA Chairman also drew the attention of the Prime Minister to some of the industry concerns that by extension impact the rest of the economy including the fiscal policy directions and signals that instead raise the cost of delivery of financial services and could put to risk the national financial inclusion strategy 2017, reversing the gains achieved from the various combined initiatives being implemented by different partners. Such un-intended consequences work against our overall common goals he said.

Regarding infrastructure development, he noted that the 1% stamp duty on bonds & guarantees risk not only making delivery of projects much more expensive, but were heavily constraining contractors particularly large infrastructure projects because of the upfront cash flow requirements for tax purposes even before commencement of works.

Banks also expressed concern over the choice of priorities of Government expenditure and allocation of resources, emphasizing the significant loan exposure by borrowers due to delayed or non-payment of service providers to Government who would have taken loans from commercial banks to finance such services. The Chairman said as result of this, non-performing loans arising from non-settlement of Government arrears has had a bearing on bank non-performing loans (NPLS). NPLs impair Bank Capital, impact interest rates upwards as pricing for risk, which constrains lending appetite, and private sector credit growth, which in turn affects trade and economic growth, since Government is the largest business driver.

Mr Mweheire cited the Agricultural Credit Facility (ACF) where banks are yet to benefit fully from the 50% guarantee to claim recoveries, simply because of the new & burdensome approval process for write off/claims, yet an MOU was in existence when Banks started subscribing to the scheme. As a result, he said, banks have had to carry 100% risk on the ACF.

He added that the above trends if combined with the challenges of delayed resolution of recovery cases in the commercial courts for reasons ranging from case backlog to shortage of judges risked

further constraining credit growth and the absence of credit growth in the banking system can be a big limiting factor to the growth of any economy.

Banks expressed concern over the slow pace in progressing important pieces of legislation related to Data Privacy & protection which risk exposing financial institutions to legal challenges and loss of customer confidence if they do not feel adequately safeguarded in terms of information risk.

“The events in the market touching sectors like the concessions in the electricity sector and raid of the data center of one of the Telecoms companies could be misunderstood however well-intentioned they may be. The manner in which some of these actions are undertaken could impact confidence levels & send discouraging signals to long term capital markets and investors globally,” the Chairman said.

He also highlighted the levy of 20% Withholding tax on financial investment instruments, which was not in harmony with rates in this sub-region as another tax regime that discourages investors from subscribing to instruments in Uganda.

These signals impact on the flow of foreign direct investment inflows, country credit ratings and overall attractiveness of a country as an investment destination.

In the absence of a strong private sector coupled with weak export earnings, growth in an economy may be constrained and the usual first signals are volatility of exchange rates, imported inflation, and large forex loan exposures therein when converted to local currency.

Speaking at the conference, the Minister for Finance, Hon Matia Kasaija reiterated the ministry's commitment to creating an enabling environment that ensures overall macroeconomic stability, boosting investor confidence and promoting the growth and stability of the financial sector. Prioritization of the sectors like road works and energy including Hydropower, Oil & Gas Sector were part of this commitment.

We have put in place a Financial Sector Development Strategy which will facilitate the growth and development of a strong, sound and stable financial sector Mr. Kasaija said. He welcomed the request by the bankers Association for periodic structured engagements with the Ministry and promised to review the various fiscal policy concerns that risk negatively impacting on the financial sector.



L-R (Mastercard Division President Sub-Saharan Africa Mr. Raghav Prasad, Governor Central Bank of Uganda, Prof. Emmanuel Tumusiime Mutebile, Prime Minister Hon. Rugunda and Uganda Bankers Association Chairman, Mr. Patrick Mweheire at the Conference 2018.



The Prime Minister of the Republic of Uganda Hon. Ruhakana Rugunda speaking during the Conference that was held at Kampala Serena Hotel

The minister said Government was addressing the issue of domestic arrears and in the 2018/19 financial year national budget, provision was made for Shs735b to settle domestic arrears. This is double the amount (Shs364b) provided for the previous financial year and as revenue collection improves with the various measures we are putting in place; we will give priority to this matter he said. The Minister pledged to engage the office of the Speaker of Parliament to have the Data Privacy & Protection Bill prioritized and fast tracked to conclusion this budget year.

The Prime Minister Dr Rugunda while addressing the conference said Government was giving priority to anchor sectors like ICT and other social infrastructure to facilitate lower costs of doing business, attract more investment and expand sources of revenue for development.

Through the Ministry for ICT & the National Information Technology Authority Uganda (NITA-U), we have progressed the implementation of all the three phases of the National Backbone Infrastructure (NBI) he said.

The NBI is an optical fibre cable that aims to connect the entire country to the internet. Currently, 2400 Kilometres of fibre cables has been laid across the nation connecting 33 major towns, 344 MDAs, Local Government (LG) sites and Government service centres (Hospitals, universities).



Uganda Bankers Association Chairman, Mr. Patrick Mweheire, speaks at the Annual Bankers Conference 2018

This infrastructure will facilitate connectivity especially in areas that are not commercially viable for the private sector, creating potential for the use of electronic banking channels in those areas.

In addition, Government is in the process of integrating information systems so that data can seamlessly be shared across Government systems in a rational, secure, efficient and sustainable manner.

This integration will cover different sector systems to foster secure, convenient but most importantly rational sharing and re-use of data among information systems of the various sectors including yours he said.

Dr Rugunda said, Government of Uganda is implementing the Government e-Payment Gateway, using services of existing payment service providers such as banks and mobile network operators, as a platform for electronic payments. The Gateway is anticipated to facilitate the transition to less usage of cash which will benefit a majority of financial institutions, meaning, the more digital the payments, the less the operational costs for financial institutions.

The above developments must be complimented by a legal framework conducive to a digital economy. The government has facilitated the enactment of several laws to cater for various types of electronic transactions including the Electronic Transactions Act and Computer Misuse Act.

The government through the Ministry of ICT has set up the National Information Security Framework (NISF) through NITA-U to serve as a structure for guiding information security activities in Uganda in addition to presenting a common approach for addressing information security issues both within and outside the government of Uganda.

The Prime Minister said Government facilitated the passing of amendments to the anti-money laundering and anti-terrorism act along with other complimentary laws to strengthen how Uganda can counter terrorism financing.

The Financial Intelligence Authority has been strengthened to oversee & ensure financial integrity working hand in hand with the other financial sector regulators.

The Prime Minister congratulated the Uganda Bankers Association for launching the Shared Agent Banking system (SABS) on the 25th of April this year whose objective is to enable connectivity of bank agents and to deliver the much needed basic banking services across the country.

We support this direction, we have high expectations and call upon all parties to embrace these channels.