David G Opiokello: Bank of Uganda - recent achievements

Opening address by Mr David G Opiokello, Deputy Governor of the Bank of Uganda, on the occasion of the senior management workshop for the FY2005/2006 work plan and budget preparations, Entebbe, 4 March 2005.

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Ladies and Gentlemen:

I welcome you all to this annual event. I would like to thank all Bank staff who have been effectively participating in the implementation of the Strategic Plan 2003-2008. Allow me to mention a few achievements.

- The issuance of 2, 3, 5 and 10 year Government Bond was successfully done.
- The Bank successfully implemented automation of currency note processing.
- The RTGS has been launched while that of the Foreign Exchange Application had reached the stage of identifying the winning bidder.
- On the Capacity Building front, the Bank trained a number of staff on professional and academic courses, and most staff are now computer literate.
- The installation of the internet link was a tremendous success for the Bank. It has enormously eased communication both internally and externally and also helped to improve positively the perceptions of staff and external persons on the BOU operations.

Last year around the same time in Jinja, we resolved that this event is necessary for overcoming some of the challenges the BOU faces in drawing up Budgets and Work Plans. However, in spite of the resolutions we made last year the challenges in implementing and monitoring the current Budget and Annual Work Plans have remained onerous. I wish to point out three areas of major concern:

1. Absence of the linkage between Planning and Budgeting

Best practice requires that Annual Work Plans be closely linked with the Budget. Last year the budgeting exercise was carried out before agreeing on Work Plans. This caused a mismatch between planned activities and resources, with the resulting risk of making the whole Work Planning process irrelevant. Part of this problem was caused by functions and departments not submitting their Budgets and Work Plans according to the agreed submission calendar. It is, therefore, not surprising that the Budget and Work Plans were approved late - in September 2004 for the Budget and October 2004 for the Annual Work Plans.

To overcome this problem this year, we must strictly adhere to the timetable for submission of departmental Budget Proposals and Work Plans, which should then fit consistently into the overall Budget. It means that functions and departments should give due time to the process so that documents are ready and approved according to schedule.

2. Over/Under Budgeting

Unrealistic budgets have continued to be submitted as a matter of practice. This has often resulted into under or over budgeting. Over budgeting has resulted into funds remaining unutilised and some planned projects not being carried out at all. Under budgeting has resulted into funds rapidly being exhausted - in some instances, within a few months into the financial year. But even more serious, over budgeting and under budgeting have provided departments with the opportunity for virement. Some departments now easily vire funds from non-performing budget lines to fund deficits in other lines. Virement is usually only justifiable in unforeseen circumstances. Producing realistic budgets which, reflect capacity to implement projects or carry out certain activities, would help reduce the time spent on reviewing the budgets at Committee and Board levels.

Let me now turn to the issue of the Bank’s income. As you are all aware, we have witnessed a dramatic fall in the Bank’s gross revenues in the last three years from Shs.97.7billion in 2000/01 to

Shs.70.7billin in 2003/04 against a background of rising recurrent expenditures, which increased from Shs.79.1billion in 2000/2001 to Shs.96.7billion in 2003/04. The resulting diminished surpluses and large losses have been a major concern to management, the Board and indeed Government, which have not received any dividends since 2001/02. The main cause of this, of course has been the general decline and volatility in interest rates in the international markets during this period. The Bank has also lost income from penalties levied against banks as well as loans to commercial banks both of which have continued to decline on account of strengthened supervision. Income has also been forgone on the discounting of treasury bills. More seriously the margin on forex transactions, which has traditionally brought in the bulk of the Bank's income has had to be reduced from 1% to 0.5%, as a result of the policy to transfer Government project accounts to BOU to help manage liquidity.

Clearly the above-described situation is unsustainable and the Bank may have to adopt drastic measures including further rationalization of structures and staff to contain it.

3. Late Submission of Performance Assessment Reports (PARs)

Last year, prompt submission of reports to help generate analysis for feedbacks and management decisions were not easily forthcoming. First of all, no department attempted to report to the CSO bottlenecks they were experiencing in carrying out some tasks. As such, some tasks were cancelled or deferred without drawing the attention of the SPC or management. Clearly, this is contrary to what was agreed. It was agreed that departments experiencing difficulties in implementing some tasks should report such incidences promptly without the need to follow the established reporting calendars. This was to enable management to make fast track decisions to keep planned programmes on course. Second, some departments appeared to be unwilling to give these exercises the due attention they deserve regarding them as needless bother by deliberately not responding to reminders. This has resulted into late submission of PARs and, therefore, a delay in the production of quarterly and annual reports.

But, I should add that the problem of late submission of reports goes beyond Work Planning and Budgeting activities. As a matter of fact, it is endemic and pervasive in the Bank, and involves all other bank-wide initiatives, namely:

- Business continuity and contingency planning;
- Staff performance appraisal exercises;
- Responses to Audit Queries.

The fact that the Bank recognises the importance of these initiatives in management and that we signed up to their basic principles, means that we should devote much of our time to the processes involved to realise the benefits. This involves changing our attitudes and mindset and to recognise that we must always work as a team and deliver services promptly to derive the maximum benefits of our collective efforts.

And so this coming year, I would like senior management to take much of their time and attend very seriously to bank-wide programmes. Obviously, this will mean Senior Management devolving much of routine functions to the rank and file and concentrating on strategic functions. I also think we should introduce a system of rewards and sanctions for performing and under performing departments and functions. **Naming and shaming** under performing departments and functions could be a useful sanctioning tool.

Such a system could be important because as more and more strategic functions are introduced into the Bank so will the role of Senior Management increase to attend to those functions. Very soon, the Bank will be adding to the menu of bank-wide programmes, Risk and Performance Standards Management frameworks. Therefore, if we do not have the right mindset to absorb these additional responsibilities, we will, definitely, not succeed.

On the issue of staff performance appraisal, I am deeply concerned that senior management are persistently not appraising staff consistently either because they fear to do so or because they do not follow the proper monitoring system. A proper monitoring system provides that at the beginning of every appraisal period performance targets are agreed between staff and managers, which are then monitored continuously with the participation of the staff during the period. It means performance is measured against known indicators and recommendations agreed upon are recorded on a continuous basis, the total sum of which, provide the basis for the end-of-the-year appraisal report.

Currently, because this is not done and probably because staff appraisal is regarded only as an end-of-year exercise, the Bank has often suffered a great deal of embarrassment in circumstances where staff have been accused of non-performance or indiscipline and for which disciplinary actions have been sought, but no evidence to the effect have been provided.

Beginning this coming year, I would like to see senior staff take the matter of staff appraisal very seriously. All end-of-the-year appraisal reports must contain evidence of continuous monitoring of staff performance and managers should stand ready to defend their recommendations. The appraisal system should never be used to patronize or unfairly punish staff. To the contrary, it should be used to enhance staff performance.

I call upon your undivided support of and active participation in bank-wide programmes. It is this way that, together, we will improve the effectiveness and efficiency of Bank Services.

I hope you will reflect what I have just said in your deliberations today.

With these few words, I declare the workshop open.

Thank You.