Emmanuel Tumusiime-Mutebile: Laying the foundation for industrialisation to prosper

Opening remarks by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the African Export-Import Bank (Afreximbank) Workshop "Afreximbank: The Trade Finance Bank for Africa", Kampala, 17 November 2014.

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The Minister of Finance, Planning and Economic Development,

The Executive Vice President Afreximbank and your delegation,

Deputy Governor of the Bank of Uganda

Members of the Board of Directors, Bank of Uganda

Senior Management and Staff Bank of Uganda

Distinguished Invited Guests

Ladies and Gentlemen,

Good morning,

It is a pleasure to speak at this African Export-Import Bank (Afreximbank) road show. I would like to thank the organisers, Executive Vice-President (Business Development and Corporate Banking) – Dr. Benedict Oramah's team from Afreximbank and the Bank of Uganda Communications Department task force for arranging this programme. I am delighted to have this opportunity to talk about the issues surrounding the medium and long-term financing facilities of Afreximbank at a time when the country is laying foundations for her take-off through industrialization as enshrined in policy documents like vision 2040. I would like to emphasize from the outset that the essence of my remarks is to enable practitioners extend the cache of financing options available for expanding their businesses.

In low income countries, the banking sector is relatively not well developed such that supply side constraints are still a big challenge to accessing financial services. On account of a relatively weak financial sector; access to financial services like credit is very low.

By and large, the financial services sector in Uganda has limited diversity dominated by commercial banks while other financial institutions are limited in number, small in size, and relatively ineffective.[1] The shallow financial sector has resulted into a small proportion of the population borrowing from commercial banks (18.37 borrowers per 1000 adults).[2]

Nonetheless, the demand side of the market has its inherent characteristics that serve as a hindrance to accessing the available credit markets. The Small Medium Enterprises (SMEs) that dominate the business sector in developing countries are encumbered by (i) inadequate management systems; (ii) poor financial records and accounting systems; (iii) insufficient networks that limit their access to markets; and (iv) operating inefficiencies that negatively impact production costs and profits.[3]

Consequently, formal financial institutions that rely on audited financial statements and well-articulated project and financial proposals to disburse loans assume that most SMEs are

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[1] Mugume, A. (2008). Profitability, Concentration, and Efficiency in Uganda's Banking Industry. (D. A. Kihangire, C. A. Abuka, & J. O. Apaa, Eds.) T*he Bank of Uganda Staff Paper Journal*, 2 (1), 5–35.

[2] World Bank Database 2013.

[3] Kasekende, L. and Opondo, H. (2013). Financing Small and Medium Scale Enterprises (SMEs): Uganda's experience. BOU Working Paper WP/03/01.

high risk borrowers whose credit worthiness is not easy to establish due to information asymmetry. In addition, formal financial institutions assume that extension of credit to these SMEs would require high monitoring and enforcement costs. Both these supply and demand related factors remain major handicaps to the development of medium to long term financing.

As a result, the Government of Uganda (GOU) in collaboration with its development partners alongside Bank of Uganda has had various attempts in the past to remedy the structural bottlenecks in credit allocation. These attempts took the form of low interest rate credit schemes[4] such as (1) Apex Private Sector Loan Scheme (Apex); (2) Export Refinance Fund (ERF); (3) Distressed Flower Project Fund (DFPF); (4) Export Promotion Fund (EPF); and (5) Development Finance Fund (DFF). Other schemes have included (a) Investment Term Credit Refinance Fund (ITCRF); (b) Cotton Sub -Sector Development Project (CSDP); (c) Rehabilitation of Public Enterprises (RPE) project; and (d) Export Credit Guarantee Scheme amongst others.

More recently, the Agricultural Credit Facility (ACF) was introduced in 2009 to deal with the second round effects of the global food price hike of 2007 and promote value addition in agro-processing. The performance of these schemes has been varied. The timing of introducing the schemes, mechanism of delivery and quality of business cases from SMEs for these loans partly explains the variance in performance.

Ultimately, the sustainability of these credit schemes has been and will be dependent upon low defaults of the loan portfolio and low overall administration costs. Thus, Bank of Uganda's collaboration with various commercial banks in the disbursement of ACF is intended to ensure that administration costs are kept low and that these financial institutions that are well versed with risk assessment in credit markets optimize their specializations.

Apart from Government initiatives, there are a number of initiatives led by private sector financial institutions that SMEs may call upon namely, lease financing, credit purchase financing, equity financing, venture capital financing, and financing through mergers & acquisitions. For example, SMEs such as UgaChick Limited and Commercial Microfinance Limited received equity financing from Messrs Development Finance Company of Uganda (DFCU), East African Development Bank (EADB) and the European Investment Bank (EIB).[5] Our Development Bank – UDB and EADB have also to the extent possible extended credit to credible entrepreneurs. Despite the existence of these opportunities, some SMEs are not either aware of them or do not know how to access them.

Today, we are here to talk about another medium to long term finance provider – Afreximbank. The Afreximbank was established in October 1993 by African Governments, African Development Bank, African private and institutional investors as well as non-African financial institutions and private investors for the purpose of financing, promoting and expanding intra-African and extra-African trade.

The Bank has an authorized share capital that was revised to US$ 5 billion from US$ 750 million to expand its capacity to extend credit. Afreximbank's mission is to stimulate a consistent expansion, diversification and development of African trade while operating as a first class, profit-oriented, socially responsible financial institution and a centre of excellence in African trade matters.[6]

In terms of services, Afreximbank has three broad services namely, (i) credit (trade and project financing); (ii) risk bearing (guarantees and credit insurance); and (iii) trade information and advisory services. In this regard, a number of countries have benefited.

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4 Ibid.

5 Opcit.

6 http://afreximbank.com/afrexim/en/AboutUs/BackgroundandConstitutiveDocuments.aspx

For instance, Afreximbank entered a competitive bid and won the mandate from Kenya Airways to arrange and participate in a US$ 2 billion syndicated aircraft acquisition financing facility for the purchase of 9 new Boeing 787–800s (B787s) Dream liners, one Boeing 717-300 ER and 10 Embraer E190 aircrafts. Some of us have travelled using some of these aircrafts. In West Africa, the Afreximbank has extended loans for building multimillion power projects and value addition in cocoa.

In Uganda, Afreximbank during its Annual General Meeting (AGM) held in Kampala, Uganda in 2008 extended a loan of US$10 million to be accessed through Uganda Development Bank (UDB). Unfortunately, the absorption capacity of the Ugandan projects remains low such that the bulk of the US$ 10 million remains unused. While there is a need to increase the value of loans extended by Afreximbank through increased publicity, there is a need to encourage Ugandan companies to improve their absorption capacity of these resources.

In order to increase the loan amounts of Afreximbank, there is a need for Ugandan commercial banks to enter into collaborative relationships with Afreximbank. The essence of this relationship will be to utilize the knowledge of Ugandan commercial banks regarding the credit worthiness of local SMEs coupled with the finances of Afreximbank to extend the latter's footprint in Uganda's medium to long term credit market.

I urge all those from the business community to pick lessons from this road show and devise how best to benefit from Afreximbank's largesse. I encourage you to attend the one-on-one meetings scheduled for this afternoon and tomorrow to further explore the opportunities for your various entities arising out of this engagement.

It is now my pleasure to invite the Executive Vice President of the Afreximbank to give his remarks.