

BANK OF UGANDA



REMARKS

By

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At the Launch of the Orient Bank's Financial Literacy Programme
– **The Orient Bank Business Academy**

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Kampala, 30 August 2016

The Chairman and Members of the Board of Directors of Orient Bank Ltd,
The Managing Director/CEO of Orient Bank Ltd,
All distinguished guests,
The Media Fraternity,
Ladies and Gentlemen,

Good morning!

Let me thank the Board and Management of Orient Bank for inviting me to today's launch of the bank's Financial Literacy and entrepreneurship Programme – **the Orient Bank Business Academy**.

Financial education and entrepreneurship training are critical in helping citizens to participate fully in the development process. They both help to alleviate demand side constraints to financial inclusion and empower citizens to better manage their personal resources that are vital in developing small and medium-size enterprises.

I want to highlight three issues which are relevant for this Business Academy initiative.

The first is the level of entrepreneurship in Uganda and the related high mortality rate of businesses. Uganda is ranked as one of the most entrepreneurial countries in sub-Saharan Africa and the world.

According to the Global Entrepreneurship Monitor (GEM) 2014 data, Uganda had an early-stage entrepreneurial activity rate (the proportion of the population aged 18-64 years who either are a nascent entrepreneur or owner-manager of a

new business) of 36 percent compared to the Sub-Saharan African average of about 28 percent.

Yet, the attrition rate is also relatively very high with a failure¹ of businesses estimated at a rate of 26 percent relative to the average of about 16 percent for sub-Saharan Africa. So, what accounts for this high failure rate? According to the said GEM report, engaging in unprofitable business accounted for more than one in every three instances of business discontinuation, and this can result from a wide range of factors such as continued informality of businesses, misconception of a business idea to management challenges and problems of getting and managing finances.

This failure rate means that very few small firms ever grow into bigger firms to attain economies of scale and contribute to formal employment creation. This is compounded by low growth expectations of Ugandan entrepreneurs with the GEM data estimating that only ten percent of the early stage enterprises expected to employ at least 5 employees within the subsequent five years

The second issue relates to some perceptions being peddled around by some commentators to the effect that the recent increase in non-performing loans of the banking industry from 4 percent in June 2015 to over 7 percent in June 2016 was mainly a result of high interest rates.

The truth could not be far from this. While lending rates by commercial banks have increased since 2015, the current average lending rate of about 23 percent,

¹ Defined by the Global Entrepreneurship Monitor (GEM) as the proportion of the adult population that reported having discontinued a business within a year

on shilling denominated loans, is not out of line with their historical average over the last few years.

In addition, a recent review by Bank of Uganda to ascertain the reasons for the non-performance of large credit facilities in commercial banks indicated that only a paltry 0.3 percent of non-performing loans as at March 2016 could be attributed to high interest rates. Diversion of funds away from the intended purpose of the loan was a major contributor to the non-performing loans, only surpassed by delayed payment by government (domestic arrears) and cost overruns/ insufficient cash flows. The above three reasons inclusive of diversion of loaned funds and poor management accounted for about sixty five (65) percent of the large Non-Performing loans in our banking industry.

The third relates to the feedback we have received from the public during the Bank of Uganda Golden Jubilee commemoration activities that involved town-hall meetings, radio talk-shows and public exhibitions in Mbale, Gulu, Arua and Mbarara.

A sentiment frequently expressed by the public related to a lack of transparency on charges and interest rates by financial institutions, complaints about customer care by these institutions, and lack of information about financial products and services.

I believe all the above three issues can be dealt with by increasing financial education and stronger consumer protection coupled with developing the entrepreneurship and management competencies of individuals and the SMEs. With better financial literacy and enterprise management, it is not inconceivable

to believe that Uganda would have fewer financially distressed firms, a lower business failure rate, more employment creation and higher rate of savings and investment.

Uganda needs to pick a leaf from several of the Asian countries that you may refer to as “manufacturing and enterprise hubs” by enhancing its entrepreneurial education and training in order to realize higher labor and enterprise competitiveness within the global economy. The latest estimates by the Global Entrepreneurship Monitor, measuring the extent to which training in creating or managing SMEs is incorporated in higher education such as vocational, college or business school, rated Uganda with a score of 3 compared to 5 for India and China, 5.2 for Malaysia, 5.9 for Indonesia, and the highest score of 6.3 for the Philippines.

I am therefore delighted that Orient Bank is joining this important call and is working with Makerere University Business School (MUBS) in this financial literacy drive. This initiative has the potential to augment the capacity of the participating small and medium enterprises (SMEs) to prepare bankable projects, improve records management and ultimately enhance their access to finance. Small sized enterprises in Uganda have about 11 percent of their bank loan applications rejected compared to only 4.6 percent for the medium sized counterparts, according to the World Bank’s Enterprise Survey data for 2013. Therefore the focus of Orient Bank’s financial literacy drive on micro and small enterprises is both valid and essential.

I am also particularly enthused by the involvement of management and entrepreneurship professionals from MUBS in this **Orient Bank Business**

Academy. If this financial literacy and entrepreneurial Programme is implemented as designed, it entails some form of apprenticeship model that is needed by many of our nascent enterprises to sustainably graduate to a higher scale and be able to access relatively cheaper finance through the capital markets. I also believe that the program is beneficial to the MUBS academic fraternity in the sense that it will provide an avenue for them to practice and gauge the practicability of their entrepreneurship and business management curriculum.

As you may all be aware, the Bank of Uganda is spearheading the implementation of a national strategy for financial inclusion with financial literacy as one of the key pillars. The financial inclusion drive entails elements of innovations like mobile money, agency and mobile banking; it encompasses improving data measurement, and financial consumer protection.

In pursuit of even greater financial inclusion and in response to the public feedback highlighted earlier, the Bank of Uganda is undertaking;

- a) Strengthening of the current framework for financial consumer protection, including supporting the implementation of the recently enacted Tier four Microfinance law;
- b) Institutionalizing and reinvigorating the mechanism for complaints handling within the banking industry;
- c) Supporting efforts to improve efficiency and realize economies of scale within the formal financial sector and increasing the diversity of financial institutions and products; and,

d) Further bolstering the Bank of Uganda's communication and stakeholder engagements, with particular emphasis on improving financial and economic literacy of the public.

With these remarks, it is my honor and pleasure to formally declare the **Orient Bank Business Academy** launched. I thank you for listening to me.