Louis Kasekende: Overview of the Bank of Uganda's activities and current concerns

Remarks by Dr Louis Kasekende, Deputy Governor of the Bank of Uganda at the Bank of Uganda Town Hall Meeting, Jinja Town, 17 April 2019.

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Hon Ministers,

The Members of Parliament,

Owek. Katuukiro of Obwa Kyabazinga Bwa Busoga, Dr. Joseph Muvawala,

The Jinja District Leadership and leaders of other districts in Busoga,

All leaders in your respective capacities,

Members of the Fourth Estate (The Media),

Ladies and Gentlemen,

Good morning!

Let me start by thanking you all for honouring our invitation to this event. Special gratitude is extended to the Honourable Ministers, Members of Parliament, Deputy Governor Emeritus, Mr Bukumunhe, and Dr. Joseph Muvawala, the Katuukiro of Busoga Kingdom.

Today's event is a continuation of a series of activities that were started in 2016 as part of the Bank of Uganda's golden jubilee commemoration. Over time, Bank of Uganda Management and the Board of Directors had observed various misrepresentation/misunderstanding of its mandate and sometimes a clear lack of information about BOU services by the public especially in our upcountry communities. Therefore public outreach activities such as these were instituted as an avenue for the Bank of Uganda to explain its mandate and account to the public for its policies and actions. More importantly, it is an avenue to strengthen the linkage between the Bank of Uganda and the local area leadership, and the general population for both sensitization purposes and seeking feedback from all our stakeholders.

In my remarks today, I will provide an overview of what the Bank of Uganda is set out to do and also address a few topical issues before I call upon my staff to deliver brief presentations on some selected areas of our mandate. One of the presentations shall be on the operations of the Agricultural Credit Facility.

First; what is the role of the Bank of Uganda? Article 161 and 162 of the Constitution of the Republic of Uganda, 1995, clearly set out the Bank of Uganda as the "only authority to issue the currency of Uganda" and to "…promote and maintain the stability of the value of the currency of Uganda; regulate the currency system in the interest of the economic progress of Uganda; and ensure an effective and efficient operation of a banking and credit system.." The Bank of Uganda Act, 1993 under section four goes further to detail the specific functions including the supervision and regulation of financial institutions.

One of our major pre-occupations as a central bank is to control inflation, i.e. maintaining the value of the Uganda shilling by keeping at a minimum, the changes in overall prices of goods and services. Moderate changes in prices are supposed to enable households and businesses to save and plan long term, without fear of significant erosion of their monetary value. I wish not to discuss monetary policy today, as I believe it is one aspect of our mandate where we may have consensus with most stakeholders to the effect that the Bank of Uganda has performed very well especially since the mid-1990s, compared to what the economy experienced in the 1980s and 1970s.

Second; let me speak briefly about our mandate with respect to the supervision and regulation of financial institutions. It is critical to note that not every financial institution falls under the regulatory purview of the Bank of Uganda.

Bank of Uganda currently oversees deposit taking institutions that fall under three categories; Commercial banks, Credit Institutions such as Postbank Uganda Limited, Opportunity Bank and BRAC Uganda Limited; and the Micro-deposit taking institutions like Pride Microfinance, FINCA and UGAFODE Microfinance. Bank of Uganda also oversees the foreign exchange bureaus and licenses any entity wishing to engage in money remittance services. At the moment, the Bank of Uganda also oversees the mobile money services jointly with Uganda Communications Commission. However, this is bound to change with the enactment of the National Payments Systems Law that is in the offing that will have Bank of Uganda taking sole responsibility for regulation and supervision of the mobile financial services. Money lenders and other microfinance institutions are therefore not the responsibility of the Bank of Uganda. Non-deposit taking Microfinance institutions and entities like SACCOs are regulated by other agencies such as Uganda Microfinance Regulatory Authority.

With respect to SACCOs, I want to urge the members to reflect on the unutilised potential of these groupings in fostering job creation and wealth for our community. Often, the SACCOs are only used by members as some form of safe custody or saving to spend on later festivities and sharing out the proceeds of any interest earnings. Such operational modalities often result in returns that are so small to undertake any meaningful investment by an individual member. I wish therefore to request members to consider transiting SACCOs into Producer cooperatives by utilising the pooled funds as capital for investments in commercial agro-based enterprises. Such a move coupled with proper record keeping can also facilitate easier access by members to government funds like the Agricultural credit facility (ACF).

Having set out the range of institutions supervised by the Central Bank; I want to echo the benefits that the public accrues from dealing with only regulated financial institutions. Regulated institutions are best placed to ensure safety of people's savings because they are demanded to act diligently in accordance with the set laws and regulations; offer a recourse to the regulator for consumer protection in case of complaints or irregular activity, and in the event of having to be closed and liquidated, there is a final recourse to the deposit protection fund for depositors in these regulated financial institutions.

As such, the public should not be duped into dealing with unlicensed and unregulated financial institutions that are in many ways disguised schemes to defraud the community. Members of the public should heed warnings or advice coming from agencies like Bank of Uganda regarding operations of certain investment schemes or institutions. In addition, the public should also take keen interest in physically inspecting the licenses of any institution that claims to be licensed by the Bank of Uganda or any other regulator. The licenses are supposed to be displayed in all the branches of these regulated institutions and whenever a customer is in doubt; they should inquire from the regulators. The security agencies and other arms of government should also take a firm stand to wipe out the Ponzi schemes and other unregulated financial institutions. Otherwise, if we leave unregulated financial institutions to operate leading to public loss of funds, it could damage confidence in the entire financial system with dire consequences for the economy.

Third, permit me to speak briefly about the recent parliamentary proceedings related to our execution of the bank supervision and regulatory role. One issue that featured quite extensively in the discussions with COSASE and in the media related to the speed of resolution of some of the financial institutions and the recommendations by some sections of the public to introduce strict procedural guidelines with fixed timelines for the Bank of Uganda. I wish to draw your attention to a regulator's perspective on that issue.

The Bank of Uganda only intervenes in a financial institution when it has reasonable belief and evidence that continued operations of that institution pose serious risk of loss to depositors' funds. Moreover, the dire condition of any institution that is the subject of a Central bank intervention is a result of failure of the management, shareholders and Board of directors to execute their responsibilities as per the set laws, ethical and corporate governance procedures. For instance, nearly all the banks closed or sold in Uganda since the turn of the century failed because of outright fraud by shareholders, excessive lending of funds to insiders – managers and shareholders, collusion to cover up irregularities between board of directors and the management, and misreporting of the true state of the bank's financial position, among many factors.

Therefore, speed is of the essence to preserve the residual assets of any failing bank so as to fully cover the deposit liabilities. Otherwise, any delay in intervention and resolution, is an opportunity to shareholders and management of these commercial banks that have caused their collapse in the first place, to further strip these institutions of the remaining residual assets and value; thereby shifting the burden of paying the depositors funds to the tax payers.

I wish to urge some level of caution to those advocating for bureaucratic and static procedural guidelines in the resolution of financial institutions. While there is some merit in the proposal, such procedural guidelines should recognise the dynamic nature of banking crises; allow flexibility and the need to not curtail the ability of the regulator to proactively respond to an evolving state of a failing institution and the predatory behaviour of a bank's managers and shareholders.

Overall, the current supervision and resolution framework may not be perfect but it has served this country well, especially in the period after the enactment of the Financial Institutions Act, 2004. The primary objective of bank regulation is to protect depositor's funds and no depositor has lost any money in the resolution of any commercial bank since 2004.

Finally, I have been reliably informed that counterfeiting of currency is quite prevalent in this area. Counterfeiters are simply robbers of people's hard earned monetary value and should be dealt with firmly. Indeed, the Bank of Uganda in the proposed amendments to the Bank of Uganda Act has included tougher penalties and sanctions as a means to deter this vice. However, the population also has a responsibility of acquainting themselves with the security features of our currency, through the various public awareness "Know your money" campaigns carried out by the Bank of Uganda. For business units that deal with relatively high volumes of cash, they should consider buying the necessary detection gadgets.

I wish to end my remarks by once-again thanking you all for attending this event and I look forward to hearing your own perspectives and assessments of the Bank of Uganda's mandate, policies and actions. We are here to listen to you!

Mwebale inho mwebalile ilala