Remarks by

Prof. Emmanuel Tumusiime-Mutebile,

Governor, Bank of Uganda

UBA Annual Bankers' Conference

Kampala Serena Hotel

Tuesday, July 16, 2019

The Rt. Hon. Prime Minister, Dr. Ruhakana Rugunda,
Mr. Patrick Mweheire, Chairman - Uganda Bankers Association (UBA)
Mr. Wilbrod Humphreys Owor, Executive Director
Members of the Executive Committee of the UBA
Members of Uganda Bankers Association
Invited guests
Ladies and Gentlemen

I would like to thank the UBA for inviting me to address this third edition of the Annual Bankers Conference on the theme - *"De-risking Financing & Investment in Agriculture to promote decent youth employment and inclusive growth".*

It is commendable that the UBA has focused attention on the potential role that finance can play in leveraging the agriculture sector to diffuse the demographic bomb that threatens to explode in our midst if Uganda does not create decent jobs for the youths.

The value added by agriculture, forestry, and fishing as a percentage of gross domestic product (GDP) declined from 49 percent in 1991, to 28 percent in 2000, to 26 percent in 2010, and down to approximately 24 percent in 2018[1].

[1] World Bank Data

Over the same period, employment in agriculture as a percentage of total employment declined from 74 percent in 1991, to 70 percent in 2000, remained at 70 percent in 2010, and rose to approximately 71 percent in 2018[2]. While the contribution of agriculture to national economic growth has halved between 1991 and today, the share of the population that is employed in this sector has hardly moved. Moreover, 68 percent of the population is engaged in subsistence farming.

The United Nations forecasts that Uganda's population will rise to 102 million by 2050, and then to 203 million by 2100. Uganda will become one of the most densely populated countries in the world by the middle of this century, when its population will be more than two and a half times the current level.

It is quite unlikely that the formal sector will employ a significant share of the population. Moreover, some surveys including one conducted by the Aga Khan University in 2016 indicated that a tiny proportion of the youths aspire to employment in the agriculture sector.

[2] ILO estimates

And this brings me to the finance sector. A previous edition of the World Bank's Economic Update on Uganda argued that the high cost and limited access to credit was a binding constraint on Uganda's economy. This implies that if only banks and other financial institutions could lower their lending rates and expand the volume of their lending, substantial numbers of businesses in the economy would be able to borrow money for investment in order to boost their output while servicing their debt and increasing their incomes.

While I remain uncomfortable with the high lending rates and believe that they should be reduced sustainably over time, I dare say that access to credit is not the ultimate binding constraint on economic growth.

We must think holistically about the challenges holding back the power of finance to transform our economy. Proper diagnostics must reveal the problems that constrain agricultural finance before we devise durable solutions. We must examine the borrowing capacities of the businesses in our real sector.

On one hand, financial institutions are challenged to rethink their views of bankable projects so as to design solutions for potential borrowers at their level. On the other hand, formal sector creditworthy businesses, which have been the main clients of commercial banks, comprise a small share of the economy. Informal business and micro-enterprises abound and their capacity to utilize credit effectively is constrained, including by inadequate business and technical skills, the high costs of inputs, and unpredictable market conditions.

Fortunately, some financial institutions have started tackling these problems through business incubation programs. Moreover, through automation and adoption of new technologies for delivering financial services, it is possible for banks to reduce their operating costs, and pass on the savings to borrowers through reduced lending rates. I am also optimistic that banks will exploit the potential of *bancassurance* to exploit synergies with insurance to design products for the riskier borrowers. Indeed, I am anxious to learn from the speakers about UBA's plans to de-risk financing and investment in agriculture.

I must applaud the UBA for embracing the role that can be played by the financial sector in transforming our people into a non-agrarian workforce and urban-dwelling populace. But I must add that it will take a comprehensive approach by all sectors to bring about this transformation.

Indeed, the fruits of higher labour productivity in non-agriculture sectors, and higher living standards in urban areas enjoin the government to develop the manufacturing and service sectors in order to absorb the youths who are migrating from rural areas. Research conducted by the *International Growth Centre* has shown that it is possible for Uganda to industrialise through prioritization of high productivity services or non-traditional "industries without smokestacks" such as agro-processing, ICT, transport and tourism, which can absorb the youths seeking jobs.

Government must focus on boosting export-oriented manufacturing and growth of the tradable services. This will help to meet the rapidly growing urban demand for food thereby linking urban and rural growth by creating market for rural production, and even reducing the import bill.

Such demand-driven agricultural development would foster innovation and advancement in production, processing, and packaging, across all the stages of the chain in catering to the demands of urban consumers of processed products including packaged foods.

Government needs to join hands with finance and all sectors by facilitating urban-rural linkages, to embed local firms within the supply chains of international retailers, such as the international supermarkets in our cities and towns, and promote export readiness of local firms if we are to be the bread basket of the region.

Potential areas of further investment for government and the financial sector include roads, cold storage, transport, support for farmer organisations, agricultural extension, and out grower schemes. It is also necessary to address information asymmetries, for example, by matchmaking international firms and local suppliers.

Only through boosting agricultural development through inclusive rural-urban links will we effectively harness the agriculture sector as a dominant source of employment.

I applaud the UBA for rising to this challenge and call upon Government to join the bankers in the modernization of agriculture for job-creation and inclusive economic growth.

On our part, the Bank of Uganda will continue to work with Government and commercial banks in promoting affordable agricultural finance through the Agricultural Credit Facility, which we encourage all eligible borrowers to take advantage of.

I thank you all for listening to me.