

THE FINANCIAL SECTOR PROFILE

1.0 Background to Uganda's Economy

The major thrust of government policy during the Economic Recovery Programme that started in 1987 was to institute fiscal consideration as a means to control inflation. Public spending was contained within an overall budget framework designed to restore budget discipline and macroeconomic stability.

In the monetary sector, the government liberalised the management of the exchange rate and left its determination to market forces. The liberalisation of the foreign exchange market was a very significant economic reform that provided incentives to major sectors of the economy: agriculture, industry, trade and tourism. This reform wiped out the black market for foreign exchange and the shilling achieved full convertibility in 1993. Other reforms in the monetary sector have included the liberalisation of interest rates thus ending financial sector repression. The liberalisation of the current and capital accounts has facilitated the free flow of capital.

Significant progress has been made in reforming Uganda's overall trade policy environment. The reforms implemented have included the removal of import bans, elimination of licensing requirements, the reduction of import tariffs, the elimination of export taxes and abolition of the requirement for exporters to relinquish their foreign exchange earnings to Bank of Uganda. Other policies that have been implemented to promote private sector development include implementation of a new Investment Code in 1991, strengthening the Public-Private Sector partnership, and the abolition of state monopolies in utilities such as electricity and telecommunications.

Economic reforms have produced major improvements in the economy. The size of the economy has more than doubled in real terms; real output per capita increased by more than 50 per cent between 1986/87 and 1999/2000. GDP has been growing at an average rate of about 6 per cent per annum and the fastest growing sectors are Transport and Communications followed by mining, quarrying, manufacturing and, construction. Inflation has decreased from 200 per cent in the 1980s to 5.0 percent as at 2001/2002. Due to the sound macroeconomic performance, Uganda was the first beneficiary of the original Highly Indebted Poor Countries (HIPC) debt reduction initiative (April 1998), and first beneficiary of the Enhanced HIPC (May 2000).

There are signs of increased investment activity as indicated by an increase in leasing activity, a key indicator of investment activity. Development Finance Company of Uganda (DFCU) and East African Development Bank (EADB), the two leading development banks, have funded several projects. In December 2001, the portfolio of DFCU leasing, a subsidiary of DFCU Group of companies was Shs. 23.5 Billion.

The exchange rate has been relatively stable throughout the years with spreads exhibiting declining trend. There has also been a slight growth in financial depth, which is measured by the ratio of money supply to GDP in 2001/2002, following its decline in 2000/01 and a slight recovery in financial savings to GDP. Banks have introduced new products such as cards (debit and cash), Automatic Teller Machines (ATM) and specially packaged accounts to attract customers.

2.0 AN OVERVIEW OF UGANDA'S FINANCIAL SECTOR

The financial institutions currently operating in Uganda can be categorized into 6 groups: -the Central Bank, Commercial Banks, Credit institutions, Insurance companies, Development Banks and Foreign Exchange Bureaus. As of February 2003, there were 15 commercial banks, 7 credit institutions, 2 development banks, 16 insurance companies, 28 insurance brokers, 96 micro finance institutions and 70 operational foreign exchange bureaus (see Figure, 1). Uganda's financial system is small, in terms of the value and the volume of transactions undertaken, and undiversified in terms of the type of transactions that it undertakes. The banking sector is dominated by retail commercial banking that is concentrated mainly in the capital city, absence of medium to long term financing, segmentation and over concentration on the corporate customers. The sector has very few products, notably absent are building societies, mortgage financing, merchant banking and discount houses. The financial infrastructure is generally underdeveloped and lacks automation.

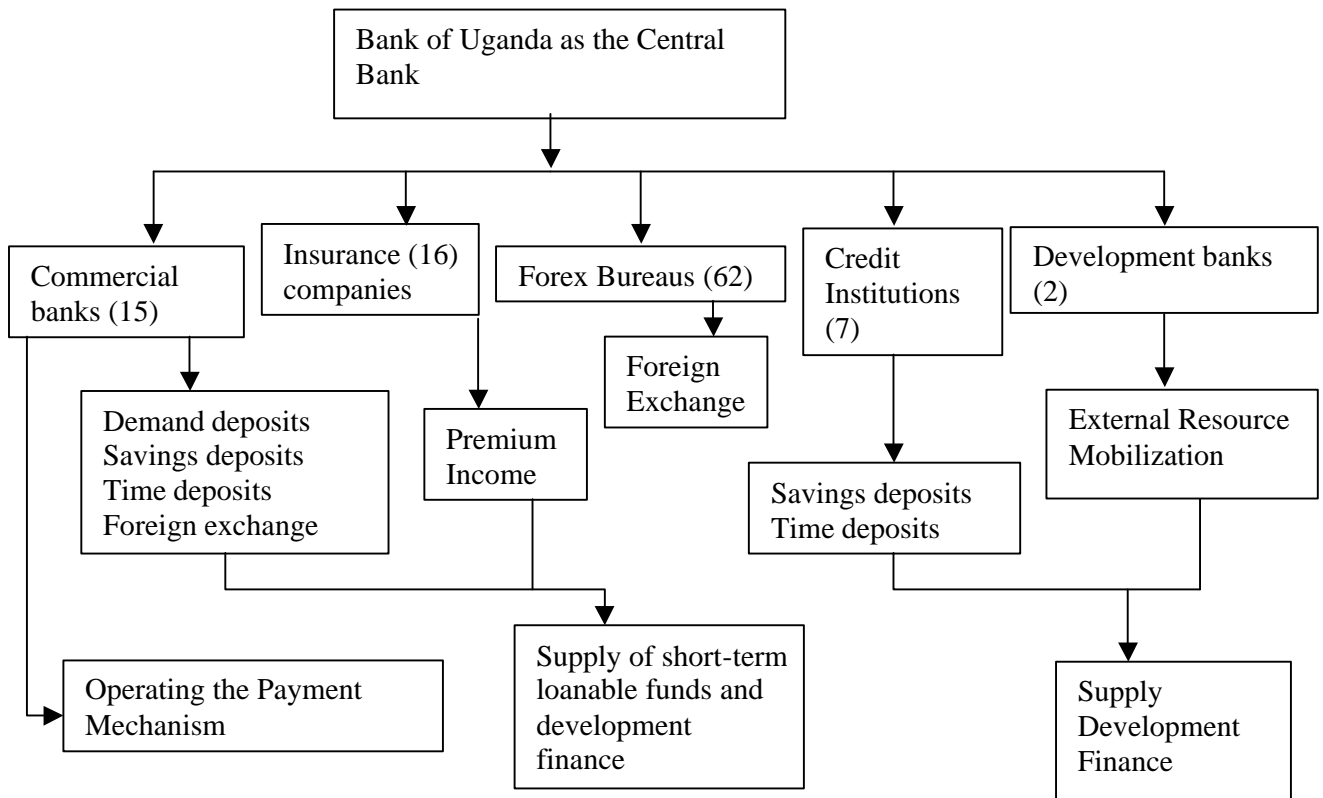
Uganda's economic policy framework is completely liberal, allowing the free operation of the market forces, with little interference and control by government in private sector operations. The macroeconomic policy framework has been increasingly improving over the years in favor of private sector-led economic growth. Financial sector reforms as part of the broad structural adjustment and stabilization programmes constitute the most remarkable development in the financial sector. The overall objective of the financial sector reforms is to increase competition and efficiency in the financial sector. Within the financial services sector, just like in any other sector, there is no prevention of total foreign ownership of any business enterprise.

Uganda is strategically positioned within East and Central Africa. This strategic location gives Uganda an easier access to a wide market within the Great Lakes region. Uganda's economy is one of the fast growing African economies with stable macroeconomic variables. As a consequence, there has been an increase in the demand for a wide range of financial services, which include among others, insurance, leasing and banking.

2.1 Regulatory Framework

Bank of Uganda was established in 1966 to provide regulatory, supervisory and advisory functions in the financial sector as stipulated in the Financial Institutions Statute, 1993 and policy regulations. The statute stipulates that the bank shall formulate and implement monetary policy directed to economic objectives of achieving and maintaining economic stability. The current Financial Institutions Statute 1993 which covers banks and credit institutions is weak and has been revised extensively by the Bank of Uganda. The Financial Institutions Statute 1993 will be repealed when the Financial Institutions Bill 2001 is enacted into law. When signed into law, the Financial Institutions Act 2001 will strengthen the prudential regulations governing banks and deposit taking by non-bank financial institutions. In particular, it will raise minimum capital and on-going capital adequacy requirements, strengthen restrictions on insider lending and large loan exposures and introduce a requirement for mandatory prompt corrective action to be imposed on distressed banks by the regulators.

Figure 1: Nature and Structure of Financial Institutions in Uganda



Figures in the parentheses represent the number of institutions. (Refer to Appendix II for a list of financial institutions).

3.0 Performance of the Financial Sector

The sector has witnessed a significant increase of transactions in both the domestic and foreign exchange markets. One contributory factor was the setting up by Bank of Uganda of a central depository system to facilitate and support inter – bank shilling transactions and the introduction of new products such as cards (debit and cash), Automatic Teller Machines (ATM) and specially packaged accounts to attract customers.

Private sector savings in the banking system, although still low, have maintained an upward trend. The low level of financial savings is partly explained by the substantial amounts of house hold savings held in the form of real estate and foreign currency assets. Because of limited access to financial services, the asset composition of rural households is to a large extent determined by the economic activities of the area.

In addition to that, the core capital position of banks has improved from Shs. 156.7 billion in March 2001 to Shs. 208.0 billion in March 2002. The banking industry remained very liquid with an overall liquid assets to deposits ratio of 86.9% during the same period.

3.1 Bank of Uganda (BoU)

There has been substantial improvement in the performance of BoU at all levels. Sound legislation supporting the BoU's operations is now in place and the bank now plays a larger and more effective role in monetary, foreign exchange and supervisory policy. There has also been a substantial move towards market-oriented implementation of monetary and foreign exchange policy. Within Bank of Uganda, many operational arrangements have been streamlined. The top management has been tightened and a number of deficiencies in the bank operations rectified. Audited annual accounts are now available on a timely basis and a more soundly based comprehensive computerization program has been established. Most importantly, the bank has instituted a forward-looking strategic plan to make it more efficient and cost effective.

The main priority of the bank is to strengthen its capability to regularly conduct on-site inspections and monitor and evaluate financial institutions' internal risk management systems to ensure conformity to on-going capital adequacy and other prudential requirements. The BoU has begun to implement short-term measures to strengthen and expand its supervisory capacities. These measures include:

- Recruitment of new staff and their training;
- Increasing the frequency of on-site inspections of commercial banks;
- Conducting audits of suspected weak or mis-managed banks and the taking of action to close or temporarily suspend operations of insolvent banks; and
- Placing some weak banks on strict performance plans intended to return them to full compliance with prudential regulations.

3.2 Commercial Banks

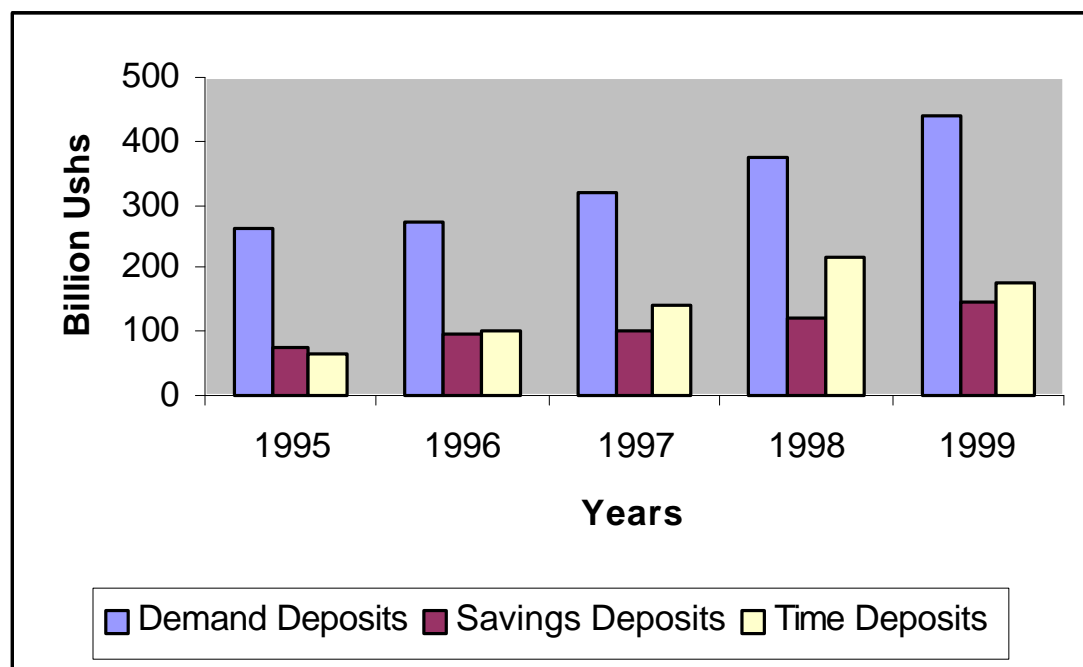
Commercial banks dominate the financial sector and account for over 90 per cent of the assets of the banking system. They are responsible for providing banking facilities to the public and operate the payments mechanism. The commercial bank system consists of the indigenous commercial banks (dominated by Uganda Commercial Bank Ltd (UCBL), which was bought by Stanbic Bank, and Centenary Rural Development Bank Ltd) and the foreign banks (dominated by the Standard Chartered Bank Ltd). Most commercial banking facilities are concentrated in urban areas. However, two of the local banks (Uganda Commercial Bank Ltd – which was bought by Stanbic Bank and the Centenary Rural Development Bank) have an extensive branch network across the country. One foreign bank, the Standard Chartered Bank Ltd has recently extended its operations by opening upcountry branches.

The commercial bank sub-sector is now much stronger as a result of the closure of four insolvent banks, a consolidation of balance sheets of banks and the improvement in the supervisory capacity at Bank of Uganda. Total deposits increased by 50 per cent from Ushs 669.9 billion at the end of 1998 to 1,004.0 billion at the end of the first quarter of 2000. As a ratio of GDP, commercial bank deposits increased from 24.8 per cent in 1997/98, to 25.9 per cent in 1998/99, and 28.4% in March 2000. Financial savings defined as total time and savings deposits in the banking system have steadily increased by 139 per cent from Ushs. 128.6 billion during 1994/95 to Ushs. 306.9 billion during 1999/00.

Over the period 1995-99, demand deposits grew by an average of 11.0 per cent. Savings and Time deposits increased by an average of 13.9 per cent and 27.3 per cent,

respectively. Between 1998 and 1999, demand deposits increased by 17.4 per cent from Ushs 374.56 billion to Ushs. 439.61 billion. Time deposits declined by 16.9 per cent from Ushs. 215.35 billion to Ushs 178.94 billion over the period 1998-1999. Savings deposits increased from Ushs 121.87 billion to Ushs. 144.77 between 1998 and 1999, an increase of 18.8 per cent. Figure 2 shows the trends in the demand, savings and time deposits over the period 1995-99.

Figure 2 Uganda; Demand, Savings and Time Deposits: 1995-99



Prime leading rates of commercial banks have declined to less than 18.0 partly due to increased competition in the financial sector following the bank of Uganda's resolution of its intervention in Uganda Commercial Bank Ltd (UCBL), in addition to the decline in the treasury bill rates (see figure 3 below).

Table 3 Prime Leading rates of Commercial banks

Prime lending rates	Dec 2001	March 2002	May 2002
12.0% - 14.0%	0	0	5
14.1% - 15.9%	0	5	1
16.0% - 18.0%	11	8	11
18.1% - 20.0%	3	1	0
20.1% - 22.0%	3	3	0
22.1% >>>	0	0	0
Range (Min – Max)	16%-22%	16% - 22%	12% - 18%

Source: Bank of Uganda

3.3 Credit Institutions

There are 7 credit institutions operating in Uganda. They play a major role in mobilizing resources and financing investments. They are all privately owned, except the Housing Finance Company of Uganda and PostBank (U) Ltd (see Appendix I).

3.4 Development Banks

Development banks are responsible for mobilizing external funds from international, government and non-government agencies, which are then lent out for long-term projects in agriculture, industry, and infrastructural development. They have been able to mobilize substantial resources in the form of commercial and concessionary loans, grants and export credit from international institutions and other aid agencies. These include among others the African Development Bank, The OPEC Fund, the European Union, The United States Agency for International Development (USAID), The World Bank and The Swedish, Norwegian and Swiss governments. Currently, there are 2 development banks operating in Uganda, namely: The East African Development Bank (EADB) and Uganda Development Bank (UDB). The East African Development Bank, whose headquarters are in Kampala, is a regional bank established by Kenya, Tanzania and Uganda. Besides the founder states, the bank's shareholders include, the African Development Bank, Stanbic Bank, Barclays Bank, Standard Chartered Bank, a consortium of Yugoslav institutions, Commercial Bank of Africa (Nairobi), P.K. Banken - Stockholm, FMO-Netherlands, and DEG-Germany. The bank provides medium and long-term loans ranging from US \$ 200,000 to US \$ 5,000,000.

The Uganda Development Bank is state-owned, and its funding is from government and lines of credit from international lending institutions. It provides financing in the form of direct loans, co-financing, special fund loans, trust fund loans and leasing.

The Development Finance Company of Uganda (DFCU) provides equity capital as well as medium and long term loans for manufacturing and commercial agriculture ranging between US \$ 50,000 and US \$ 1 million. Its current shareholders are the Government of Uganda, the Commonwealth Development Corporation (CDC), DEG (Germany) and the International Finance Corporation (IFC).

□ Opportunities in the Banking Sub-sector

- Establishment of more commercial banks in rural areas;
- Development of an Agricultural Bank to provide financing to the agricultural sector;
- Establishment of Development Banks to provide softer medium term loans to investors in the industrial sector;
- Mortgage financing to encourage collateralisation of loans and mobilization of savings; and
- Merchant banking for advisory services and wholesale banking.

Privatization of Uganda Commercial Bank Ltd (UCBL)

The government sold Uganda Commercial Bank Ltd through the sale of 80 per cent shares in the bank to Stanbic Bank (U) Ltd in 2002. The buyer of the shares is required to maintain the branch network of the bank and not to resell the shares before the lapse of two years.

Privatization of Uganda Development Bank

Government through the sale of its shares will privatize Uganda Development Bank: 30 per cent to a strategic investor; 30 per cent to a Multinational Financial Investor and 40 per cent to the general public.

3.5 Insurance

The Insurance Statute of 1996 governs the insurance sub-sector, which is still underdeveloped, and is supervised by the Uganda Insurance Commission. The sub-sector is characterized by among others: - low level of insurance appreciation by the public; 34 per cent level of insurance brokering where more than 60 per cent of brokers business is under the control of one broker; about 50 per cent of the insurance market is under the control of 4 insurance companies; professional loss assessment services are just improving recently; actuarial services are absent and insurance services are concentrated in urban areas.

The insurance industry is licensed, regulated and streamlined by the Uganda Insurance Commission as per the Insurance Statute of 1996. The supervision of the insurance industry is set to improve with the progressive enforcement of the Insurance Statute, 1996. The insurance industry is largely underdeveloped. As at November 2002, there were 16 insurance operators categorized as; 11 covering Non-Life Insurance only and 4 covering Non-life and Life insurance. There were 28 licensed insurance brokers categorized as; 4 for non-life insurance only, 19 for non-life and life insurance, 4 for loss assessment, and 3 for insurance surveyors and loss assessors (see, Appendix 1).

Out of a gross premium of approximately Ug. Shs 30 billion, Shs 32 billion and Shs 33 billion for 1996, 1997 and 1998, respectively, life business constituted approximately 12 per cent, 9 per cent and 12 per cent, respectively, of the gross premium. There is therefore a great need to re-activate life assurance business in the country not only for its social and economic security values to the policyholders but also for a greater mobilization of investible funds for the money markets and insurers' own investment. Insurers will not only be important for the risk-taking function but will also be able to make an impact on the economic life of the nation. Indeed, if life assurance with renovated or new products was re-activated and facilitated, it is estimated that the current annual market premium volume would at least double to approximately Shs 100 billion.

Since 1990, a government parastatal, National Insurance Corporation (NIC) has been competing with private insurance companies for government business. NIC is due for privatization, which creates an investment opportunity. The insurance industry has limited coverage. Most insurance companies are in General Insurance and Life Assurance. Engineering and liability insurance is underdeveloped. The insurance market does not provide aviation, Marine Hull, agriculture, livestock and crop insurance. Life and pension products are hardly available. Social insurance for instance education, health and funeral expenses are totally lacking. Whereas most companies meet the statutory capital requirements, the level of capital still requires

enhancement to enable the companies take sizeable risks, uplift their retention, as well as provide social and agriculture insurance.

❑ **Investment Opportunities in the Insurance Sub-sector**

- Currently, there is no single re-insurance company in Uganda. There is, therefore, a need for the provision of re-insurance services to encourage retention of premiums as well as build capacity in the industry;
- ❑ The ongoing structural adjustment programmes implemented by the government provide prospects for development of insurance given their complementary role in: -
 - Improving the population's income levels;
 - Accomplishing the modernization of agriculture;
 - Promoting trade and industry;

Privatization of National Insurance Corporation

The government is also committed to the privatization of the National Insurance Corporation. This will be done by selling 100 per cent shares to strategic investor who, within two years is expected to sell 20 per cent of the shares to the general public; 29 per cent to a Ugandan Institutional Investor. After the lapse of two years, the strategic investor is expected to retain 51 per cent of the shares.

- ❑ The ongoing reconstruction programme provides prospects for the growth of construction insurance with their attendant liabilities. Significant in this area is the construction of hydropower dams, bridges, and heavy industrial projects such as the Kasese Cobalt Project, roads and hospitals.
- ❑ Opportunities exist as a result of overhauling the existing laws relating to: -
 - Workmen's compensation; it is now a legal requirement for all enterprises to provide their workers with this kind of cover;
 - Motor Third Party Liability;
 - National Social Security Fund; and
 - Taxation.
- ❑ There are also social factors which enhance the prospects for the insurance industry: -
 - A growing population which is a ready market for life, health and other personal insurance;
 - Increasing literacy aided by the universal education programme which will enhance appreciation of the role and value of insurance services;
 - Poverty alleviation programmes which are expected to uplift the standards of living which should in turn increase consciousness to risk and hence the quest for insurance;
- ❑ Provision of technical ancillary services in areas like brokerage and actuarial loss assessment;
- ❑ Provision of life policies and other innovative assurances like agriculture and medical schemes.
- ❑ **Procedures for Establishing an Insurance Company**

- (i) A minimum capital requirement of Ug. Shs 200 million in case of life or non-life insurance business for a local company;
- (ii) A minimum capital requirement of Ug. Shs 500 million in case of re-insurance business for a local company;
- (iii) A minimum capital requirement of Ug. Shs 1.0 billion in case of life or non-life insurance for a foreign company;
- (iv) A minimum capital requirement of Ug. Shs 2.5 billion in case of re-insurance business for a foreign company;
- (v) The paid-up capital of an insurer must be invested in such assets in Uganda as the Central Bank shall approve and should consist solely of ordinary shares each of which has the same value;
- (vi) Every insurer shall transfer each year a sum of 5 per cent of the profits to facilitate capital base growth;
- (vii) Should be members of the Uganda Insurance Association;
- (viii) Must have a security deposit in Bank of Uganda of at least 10% of the share capital; and
- (ix) Must have cleared all COMESA dues.

3.6 Leasing

A modern financial sector possesses new financial products and services such as asset leasing and venture capital activities. In Uganda, there is no provision for leasing companies and the existing leasing company operates under the umbrella of the Companies Act. For instance, the existing Hire-Purchase Law does not recognize the modern concept of leasing; currently upon the completion of the contract, the user can purchase the asset for a nominal amount while under a standard leasing agreement, the asset would revert to the lessor.

Asset leasing is a specialized financial service whose operations have far reaching implications on taxation, liabilities and investment incentives. The Financial Institutions Bill 2001 spells out guidelines governing the operations of new financial products such as asset leasing and venture capital activities with particular emphasis on the taxation arrangements and obligations of the various stakeholders such as the lessor and lessee in asset leasing transactions.

The first leasing company to operate in Uganda was established in 1995. The Development Finance Company of Uganda Ltd. (DFCU) acquired 100% of Uganda Leasing Company Ltd in 1999 to form DFCU Leasing. Leasing is an alternative means of financing plant, equipment and business where DFCU Leasing (the lessor) buys and owns equipment selected by a business customer (the lessee) and allows the lessee possession and use of that equipment on payment of specified monthly rentals over an agreed period. Leasable items include any asset of a durable and identifiable nature for example plant, equipment, machinery, and commercial vehicles/business cars. According to preliminary evidence, leasing activity, a key indicator of investment activity is on the rise. Development Finance Company of Uganda (DFCU) and East African Development Bank, the two leading development banks, have funded several projects. To date, DFCU Leasing Company Ltd controls about 80% of the leasing activity in the country. In December 2001, the portfolio of DFCU Leasing, a subsidiary of DFCU Group of companies was UShs. 23.5 billion, details of the leasing activity since January 2001 are shown under table 2.

Table 2. Leasing activity by DFCU on a monthly basis (in Ushs billions)

January 2001	0.64	September 2001	1.4
February 2001	1.13	October 2001	1.22
March 2001	0.86	November 2001	1.24
April 2001	0.84	December 2001	2.20
May 2001	0.91	January 2002	1.80
June 2001	0.57	February 2002	1.20
July 2001	0.76	March 2002	1.53
August 2001	0.15		

Source: Bank of Uganda.

The Leasing activity has continued to be buoyant in 2002. over the first three months of 2002, assets worth Ushs 4.53 billion were leased out, representing a 72% increase over the same period a year earlier.

3.7 Capital Markets

The Capital Market Authority (CMA) was set up by the CMA Statute No. 1 of March 1996 as an autonomous body under the Ministry of Finance, Planning and Economic Development. The CMA was established among others, to ensure investor protection, approve issue of securities, license market intermediaries, investor compensation fund and ensure fair and efficient markets. With the introduction of the CMA, investors are able to raise capital through the sale of shares to the public. Capital markets play a number of roles which include: raising long term capital; mobilization and channeling of local savings into productive enterprises, providing alternative long term financing and allocation of capital to areas of greatest return in an economy.

The capital market is a recent development in Uganda. The government enacted primary securities legislation through the Capital Markets Authority Statute of 1996 and its subsidiary regulations concerning the licensing of broker/dealer and stock exchanges, prospectus requirements and securities issue and trading rules. The securities regulator is the Capital Markets Authority (CMA). As at December 2002, the CMA has licensed 5 brokers and 9 investment advisors and approved the formation of the Uganda Securities Exchange (USE) to operate a stock exchange in the country. To date, the USE deals in the following products: - East African Development Bank bonds, PTA bonds, Uganda Clays Ltd., shares, Treasury Bills and shares of the British American Tobacco (U) Ltd, shares of Kenya Airways and shares of the East African Breweries.

The primary market for securities is limited with minimal issue of securities including government debt and treasury bills. The number of companies that have been or are about to be privatized will increase the number of products to be listed on the stock exchange. On the other hand, Uganda's secondary market is very illiquid with limited trading of equities and fixed income securities for instance, Bonds, Treasury Bills and

government promissory notes. However, the liquidity is expected to improve as the number of products listed on the exchange increases.

□ **Opportunities in the Capital Markets Sub-sector**

- Brokerage, sales and tracking services firms with international experience and network;
- Fund management
- Investment Advisors and Asset Managers to mobilise capital (savings) for the market;
- Discount houses for making a market and securities thereby developing a secondary market for those securities;
- Underwriting of securities;
- Establishing of investment Banks;
- Operating of Collective Investment Schemes
- The Capital market should play a leading role in the development of the whole of the financial sector. It provides the interface needed within the industry and plays a major role in the mobilisation of major, strategic and large projects. It is also important in the ongoing liberalisation and privatization processes; and
- Establishment of a collection, depository and settlement system.

- **Regional Cooperation**

Tremendous progress has been made in area of regional cooperation. The three regulatory authorities of Kenya, Uganda and Tanzania signed a memorandum of understanding in 1997 and set up an umbrella body known as the East African Member States Securities Regulatory Authorities (EASRA). The EASRA seeks among others to:

- Introduce cross border listings of securities;
- Harmonize the legal and regulatory framework;
- Set disclosure, financial and accounting framework; and
- Develop capital markets in the region.

The body has formally established a framework for mutual cooperation in the area of capital markets development and harmonization of securities laws among the East African member states, promoting information sharing and co-operation among the members with an overall objective of integrating the capital markets of the three states.

EASRA provides mutual assistance to its member states in the development of capital markets institutions, exchanging information to facilitate the enforcement of their respective laws and regulations, cross border surveillance, public education awareness, co-ordination on technical assistance and promotion of regional consultancies. EASRA's efforts have been rewarded by the cross listing of two companies from the Nairobi Stock Exchange to the USE.

Developments in the Corporate Governance sphere.

In all East African countries, there has been established centers for corporate governance to spearhead the promotion of good corporate governance in various sectors of their economies. In Kenya, Capital Markets Authority (CMA) has

introduced the CMA rules, which govern the running of capital markets in the country, the Private Sector Corporate Governance Trust (PSCGT) was initiated. The centers for corporate governance in the three countries have also published guidelines on the principles of good corporate governance, published manuals of the best practice in corporate governance based on internationally recommended guidelines. The institute for Corporate Governance in Uganda (ICGU) for example has been the focal point of reference and will give direction to the furtherance of the best corporate practices in Uganda. It was incorporated on December 1, 1998 as a company limited by guarantee, and launched on October 12, 2000.

- **Collective Investment Schemes**

To broaden the choice of investment vehicles, involve the general public in the process of investing in securities and to enable the majority of Ugandans to participate in the on-going privatization, the Collective Investment Schemes (CIS) bill 2002 has been passed by parliament, and is now awaiting for presidential assent. The act is aimed at enabling average Ugandans to participate in the equity, debt and money markets and will further strengthen domestic resource mobilization. Capital Markets Authority (CMA) is currently finalizing the rules and regulations that will enable the operation of Collective Investment Schemes. CMA will be responsible for protecting the interests of all investors that the CIS regime aims to attract.

The implementation of CIS law is expected to open a new opportunity by accessing the resources and consequently participation of small investors through Unit Trusts and other forms of Open Ended Investment companies.

- **MTN Uganda Ltd issues a Medium Term Note Program**

MTN Uganda Ltd's issued a Ushs. 12.5 Billion Medium Term Note and it is expected that the Note under this programme will be listed on the USE. The programme has a duration of 8 years over which the MTN Note will be issued in tranches dictated by the company's capital needs, investor appetite and market conditions.

- **Policy Incentives for the Capital Markets Sub-sector**

The government has put in place policies and procedures that will attract investors to Uganda's capital markets. The removal of exchange controls and the liberalization of the capital account are some of the examples of policies that have contributed to the development of the capital markets industry. The government has granted a number of fiscal incentives to enhance market development particularly through the supply of products on the USE through:

- Exemption of stamp duty on increase in share capital for companies planning to list on the USE
- An exemption of stamp duty on the shares and debt instruments listed on the exchange
- Allowing as tax deductible costs incurred in the process of an initial offering.
- Investors in Uganda who do not hold shares as business assets do not suffer capital gains tax on the disposal of those shares.

3.8 Pension and Provident Funds Sub-sector

The pension industry is a very important ingredient in the development of the financial services sector. Currently the Uganda pension industry is dominated by a national compulsory provident fund – National Social Security Fund (NSSF). There are pension schemes, which are however not subject to any regulatory regime. Local assets and fund managers operations are very minimal. Most multinationals have outsourced these activities with off shore funds or international asset management firms. This sub sector can play a big role to help generate internal investments through mobilization of savings that can be channeled to generate internal investments and also channeled to the money and capital markets.

□ Investment Opportunities in the Pension and Provident Sub-sector

- Development of local, private and public pension and provident funds and their management.

Liberalization and the Pension Fund Market

The government in the fiscal year 2000/01 committed itself to the liberalization of the pension fund sector to allow companies to choose their pension providers. To this effect the Ministry of Gender, Labour and Social Welfare appointed a 22 member taskforce, the stakeholder Transaction Group to spearhead the reform of the pensions sector.

□ Establishment of Private Pensions

Private pensions are schemes into which individuals and institutions contribute on a voluntary basis. These pension funds offer additional future security and peace of mind for the investor and can relieve the state of some of the burden of having to provide an ever growing, elderly population, which is unable to provide for itself. Currently, in Uganda the private pension market is very much underdeveloped. Only a tiny percentage of the population makes private retirement plans. Very few institutions have a second private retirement/provident fund, which is over and above the statutory NSSF contribution. There is therefore an investment opportunity for setting up private pension plans.

4.0 Procedures for Establishing a Financial Institution as contained in the Financial Institutions Bill 2001

- (a) A company proposing to transact or carry on business as a financial institution shall apply in writing to the central bank for a license.
- (b) An application for a license should have the following information:
 - (i) The name and address of the proposed financial institution;
 - (ii) The directors and shareholders;
 - (iii) The nationality of the directors;
 - (iv) The nationality and shareholding of each shareholder;
 - (v) The proposed location where the financial institution is going to operate from;
 - (vi) The estimated number of persons to be employed;
 - (vii) The qualifications, experience, nationality and other relevant particulars of the proposed management and staff;
 - (viii) The capital structure and earning prospects of the financial institution;

- (ix) A business, financial plans and earning forecasts for at least three years; and
- (x) Any other information relating to the viability of the financial institution or other matters as the applicant considers relevant to his/her application.
- (c) The applicant shall state the class of financial institution in which he/she seeks to be licensed.
- (d) An application shall be accompanied by the memorandum and articles of association, the certificate of incorporation and a certified copy of the board resolution authorizing the preparation and submission of the application.

All banks are required to maintain a minimum unimpaired capital of Ug. Shs 2.0 billion while credit institutions are required to maintain Ug. Shs 1.0 billion. Banks will be required to maintain Ug. Shs 4.0 billion by the year 2003.

5.0 Investment Facilitation Services

The Uganda Investment Authority (UIA) is a Government body, which was established to promote and facilitate investment in Uganda. The UIA helps investors to:

- Obtain necessary information on investment in Uganda.
- Implement their project ideas through professional advice and assistance in locating relevant project support services.
- Issue the necessary investment licence and helping investors to secure secondary licenses and approvals e.g. work permits, trading licences etc.
- Arrange contacts for an investor and organizing itineraries for visiting foreign missions within the country.
- Seek joint venture partners and linking with possible funding agencies.

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Key Contact Addresses

Bank of Uganda

P. o. Box 7120, Kampala, Uganda. Tel: 256-41-258441/6 258060/9, 258090/9

Fax: 256-41-230878/233818

Email: Info@bou.or.ug

Uganda Investment Authority

Plot 28 Kampala Road

P.o.Box. 7418, Kampala

Tel: 251562/5, 234109 Fax: 342903

Email: info@ugandainvest.com

Privatization Unit

P.o.Box 10944, Kampala, Uganda

Tel: 256392/467, Fax; 251997

Email; mail@perds.go.ug

Uganda Insurance Commission,

P.o.Box, 22855

Tel: 346712, Fax: 349260

Email: uginscom@infocom.co.ug

Capital Markets Authority

Plot 4, Nile Avenue,

P.O. Box 7120 Kampala

Tel 256-41-342788/342791

Fax 256-41-342803

Email: cma@starcom.co.ug

Appendix I: Credit Programmes at Bank of Uganda

The Development Finance Department of Bank of Uganda currently manages five credit programmes, which promote development in the agricultural, industrial and service sectors.

□ European Investment Bank (EIB) -APEX Private Sector Loan

The EIB – Apex Programme has a primary objective of promoting the country's economic development by encouraging and facilitating new investments and growth of private sector enterprises in key sectors of the economy. The investments financed under the programme relate to new projects and expansion, modernization, restructuring and diversification of existing activities in the following areas:

- Agro industry;
- Manufacturing;
- Horticulture and flower growing;
- Fishing/fish processing;
- Hotels and tourism;
- Mining and quarrying
- Service projects whose activities are related to the above sectors, including transport warehouses machinery repairs and service, workshops, garbage collection and disposal.

□ The Development Finance Fund (DFF)

The DFF was established in 1986 to provide medium term credit facilities to the following sectors:

- Agriculture
- Forestry;
- Animal husbandry; and
- Agro-industries including manufacturing and distribution of agricultural inputs.

□ The Bank of Uganda Export Finance Fund (EFF)

The EFF has three major objectives:

- To expand the export base;
- Increase the country's foreign exchange earnings; and
- Ensure sufficient credit resources are made available to meet credit needs of exporters of Non-Traditional Exports (NTEs).

Eligible activities under the scheme include:

- Pre-shipment credit facilities against an export order or contract to meet working capital requirements;
- Post-shipment credit facilities to replenish the exporter's working capital requirements during the intervening period between shipment of goods and realization of proceeds; and
- Medium-term loans to exporters for investment in infrastructure such as cold storage, ware houses, cleaning, drying and packaging facilities.

□ The Export Promotion Fund (EPF)

This is a fund, which is a component of the Apex loan scheme and provides loans to exporters. The activities funded under the scheme include:

- Export marketing studies;
- Management and staff training;
- Hire of sales agents or representatives abroad; and
- Production of publicity or promotional materials for exporting companies.

□ Cotton Sub-sector Development Project (CSDP)

The CSDP credit programme has the objective of increasing cotton production in the country by providing credit to farmers and traders. The Bank of Uganda and the World Bank introduced direct wholesaling of credit to the Cotton Development Organisation (CDO) and

the Uganda Ginners and Cotton Exporters Association (UGCEA) for the supply of seeds and pesticides to the cotton growers.

➤ **Credit Related Programmes**

The Development Finance Department of Bank of Uganda manages and coordinates a number of credit related programmes that aim at improving credit delivery systems and access by the rural population to viable and sustainable financial services. These include:

□ **The African Rural and Agricultural Credit Association (AFRACA)**

AFRACA/GTZ funded Linkage Banking Programme aims at establishing a financial relationship between existing Self-Help Groups (SHGs) and formal financial institutions. It involves the nurturing of these groups to save an agreed sum of money on a regular basis over a period of time with a bank of their own choice. The banks are in turn expected to give loans to the SHGs as a proportion of the amount saved.

□ **The Cotton Sub-sector Development Project (CSDP) Capacity Building Programme (CBP)**

CBP was established by the Uganda government for developing Micro Finance Institutions (MFIs)/ Rural Finance Institutions (RFIs) capacity to provide banking services to the grassroots. It involves the training of MFIs staff and their clients, in addition to the provision of inventory to them.

□ **The Gender and Economic Reform in Africa (GERA)**

A Canadian-based North-South Institute funds GERA. The aim of the programme is to support research, training and advocacy projects that will transform economic policies and processes from a gender perspective.

□ **The Uganda capacity Building Activities for Women Financial Intermediary Organizations under the International Fund for Agricultural Development (IFAD)**

The main objective of the programme is to build capacity of the Rural Financial Intermediaries to improve the outreach of beneficiary entities in extending credit and mobilisation of savings to the rural women.

□ **The Rural Financial Services Component (RFSC) under the DANIDA Funded Agricultural Sector Programme Support (ASPS)**

Lack of access to financial services has been identified as a key constraint to the development within the small holder production in Uganda. The main objective of this component is to provide technical assistance and financial support for the promotion of viable rural financial institutions to develop an efficient and organised channel of delivery of financial services to the rural areas.

□ **Export Credit Guarantee Fund (ECGF) Funded by USAID/Bank of Uganda**

BOU/ECGF, which is funded by USAID and Bank of Uganda, offers assurance to commercial banks/credit institutions to lend to the exporters of Non-Traditional Exports (NTEs) who do not necessarily have adequate collateral/security normally demanded by traditional banks. The ECGF supports the operations of the Export Finance Fund (EFF) and further induce banks to participate in financing the export sector by covering part of their credit risk.

APPENDIX II: FINANCIAL INSTITUTIONS IN UGANDA – AS AT 22/09/2000

	Address	Telephone	Telex	Fax	Tel/Cable/Email
Bank of Uganda	Plot 37/43, Kampala Road P. O. Box 7120, Kampala	256-41-258441/6 258060/9, 258090/9	61059	256-41-230878 233818	UGABANK Info@bou.or.ug
COMMERCIAL BANKS INCORPORATED IN UGANDA AS AT 22/9/2000*					
Bank of Baroda (U) Ltd.	18, Kampala Rd, Head Office, P. O. Box 7197, Kampala	232783/233680/3 254101	61315 61230 BARODA UG	258263 230781 258263	bobio@calva.co LOCALDOM
Barclays Bank of Uganda Ltd.	P. O. Box 2971, Kampala Head Office, Plot 16 Kla Rd.	230972/6/341329 232594/7	61010 61014/ 61433	259467	bar@infocom.co.ug
Cairo International Bank Ltd	Plot 1, Bombo Rd, Sure Hse. P. O. Box 7052, Kampala	230141/230136/7 230130/230125	61598	230135 230142	-
Centenary Rural Development Bank Ltd. (CRDB)	P. O. Box 1892, Kampala, Plot 7 Entebbe Road	251276/7/232393 232137/233062	61638	-	crdb@imul.com
Citibank	Plot 20/38, Kampala, P.O.BOX 22572, Kampala	345345/2, 241414/ 231337/341414	61627	231687/ 344260 256511	CRAEBNK UG cranefxb@imul.com
Crane Bank Ltd.	Plot 20, Kampala Road P. O. Box 22572, Kampala	241400/242414 241410	--	231578	--
DFCU Bank Ltd.	Impala Hse, 13 Kimathi Ave. P.O.BOX 70, Kampala	25689/2/3	61300	231687 344260	dfcubank@africaonline.co.ug
Diamond Trust Bank Ltd.	Plot 17/19 Kampala Rd., Diamond Trust Building P. O. Box 7155, Kampala	259331/3	61642	342286	dtbu@swiftuganda.com 761300
National Bank of Commerce (U) Ltd.	13A Parliament Ave. P. O. Box 23232, Kampala	347700/4 347699	--	347701	nbc@swiftuganda.com NBC-UG
Nile Bank Limited	Plot 22, Jinja Rd, Spear House P. O. Box 2834, Kampala	345571/2 231904, 257723/349104-8	61240	257779	NBL-UG
Orient Bank Ltd.	P. O. Box 3072, 10Uganda Hse Kampala	236012/3	61342	236066	orient@starcom.co.ug
Stanbic Bank (U) Ltd.	Plot 45, Kampala Rd,	231151/20811/4/	61018	231116	--

	P. O. Box 7131, Kampala	230852	61442		
Standard Chartered Bank (U) Ltd.	5 Speke Road P. O. Box 7111, Kampala	258211/7		324857 231473	SCBKLA
TransAfrica Bank Ltd.	Udyam House, Jinja Rd. P. O. Box 1185, Kampala	234554/234564	-	234575	-
Tropical Africa Bank Ltd.	Plot 27, Kampala Road, P. O. Box 9485, or 7292 Kampala	231990/5 232857/231994	61284	212296	TAB UG TABU10@calva.com
Uganda Commercial Bank Ltd.	Plot 12, Kampala P. O. Box 973, Kampala	234710/23 258011/345519	61073	345748	UGACOMBANK ucb@starcom.co.ug
NON-BANKING CREDIT FINANCIAL INSTITUTIONS					
Capital Housing Co. Ltd	Plot 6/10 Entebbe Rd P. O. Box 21091, Kampala	245200/203/205	--	258310	cfc@starcom.co.ug
Housing Finance Company (U) Ltd.	Plot 25, Kampala Rd. P. O. Box 1539, Kampala	341227 259651/2/3	--	341429	hfcultd@infocom.co.ug
Imperial Investment Finance Ltd.	P. O. Box 24249, Hotel Equatoria, Kampala	348287/9 348294/6	61645	250606 346470	sri@swiftuganda.com
Interstate Finance Company Ltd.	Plot 9/11 Parliament Ave, Development House P. O. Box 3371, Kampala	258204	-	345637	mcb@infocom.co.ug
Mercantile Credit Bank Ltd.	Plot 10 Old Port Bell Rd, P. O. Box 62, Kampala	235967	--	--	--
PostBank (U) Ltd	Plot 68/70 William Str.	258553/258551	-	-	-
Stanbic Bank International (U) Ltd	P. O. Box 485, Kampala	230074	--	--	--
Stanhope Finance Company Ltd.	Plot 57, Nkrumah Rd. P. O. Box 7846, Kampala	348404	--	341098	stanhope@infocom.co.ug
DEVELOPMENT BANKS					
Uganda Development Bank	Plot 22 Hannington Road UDB Towers, P.O.Box 7210, Kampala	230740/6 230758	61143	256-41- 258571	DEVBANK, KAMPALA UGANDA
East African Development Bank	Plot 4, Nile Ave. P. O. Box 7128, Kla	239921/5 230021/5	61074 EADEVBAN	259763	admin@eadb.com
OTHER NON-BANKING FINANCE INSTITUTIONS					
The Uganda 's Women's Finance & Credit Trust Ltd. (UWFCT)	Plot 59, Buganda Rd. Kampala, P. O. Box 6792, Kampala	241275, 255144/7	--	255144	--

Uganda Posts Office Savings Bank	P. O. Box 7189, Kampala	230049	--	--	--
National Social Security Fund	Plot 15A, Lumumba Avenue, P. O. Box 7140, Kampala	255631/2, 256721	--	--	--
Uganda Leasing Company	Plot 3, Rwenzori Hse., Portal Ave. P. O. Box 2767, Kampala	257683	--	--	--
Uganda Co-operative Savings & Credit Union Ltd. (UCSCU)	P. O. Box 6203, Kampala	231280	--	--	--

APPENDIX II

Licensed Insurance Companies and brokers as at 8th February 20001		
INSURANCE COMPANIES		
Company	Address	Telephone
NON-LIFE INSURANCE ONLY		
AIG Uganda limited	P.O.Box 7077, Kampala	
East African Underwriters Ltd.	P. O. BOX 22938, Kampala	232892/5
Excel Insurance Co. Ltd.	P. O. Box 7213, Kampala	348595/7
Goldstar Insurance Co. Ltd.	P. O. BOX 7781, Kampala	250110/1
Greenland Insurance Co. Ltd.	P. O. Box 5245, Kampala	242863/342863
Imperial Insurance Co. Ltd.	P. O. Box 9211, Kampala	348290/3
Pan Africa Insurance Co. Ltd.	P. O. Box 5318, Kampala	258346/234676
Paramount Insurance Co. Ltd	P.O.Box 6427, Kampala	
Statewide Insurance Co. Ltd.	P. O. Box 9393, Kampala	243178/233120
The East African General Insurance Co. Ltd.	P. O. Box 1392, Kampala	344653
Trans-Africa Assurance Co. Ltd.	P. O. Box 7601, Kampala	241559/251411
NON-LIFE AND LIFE INSURANCE		
Insurance Company of East Africa (U) Ltd	P.O.Box 33953, Kampala	
National Insurance Corporation	P.O.Box 7134, Kampala	
The Jubilee Insurance Corporation,	P.O.Box 10234, Kampala	
United Assurance Co. Ltd.	P. O. Box 7185, Kampala	234190/2
INSURANCE BROKERS		
NON-LIFE INSURANCE ONLY		
Oriental Insurance Brokers Ltd	P.O.Box. 619, Kampala	
Transworld Insurance Services Ltd	P. O. Box. 9907, Kampala	
Universal Galaxy Insurance Brokers Ltd	P. O. Box 3236, Kampala	
Worldwide Insurance and Financial services Ltd	P.O.Box 1081, Kampala	

NON-LIFE AND LIFE INSURANCE ONLY		
AON (U) Ltd	P.O.Box 3123, Kampala	
Astra Insurance Brokers (U) Ltd	P.O.Box 924, Kampala	
Cannon Insurance Consultants Ltd,	P.O.Box 30, Kampala	
Capital Insurance Consultants Ltd	P.O.Box 30 Kampala	
Chancery Wright Insurance Brokers (U) Ltd	P.O.Box 25672, Kampala	
Creative Insurance Services Ltd,	P.O.Box 4688, Kampala	
Equator Insurance Services Ltd,	P.O.Box 2980, Kampala	
Equity Insurance Brokers Ldtd	P.O.Box 2903, Kampala	
Five Star Insurance Services Ltd	P.O.Box 23035, Kampala	
Incafex Insuranec Services Ltd	P.O.Box 8867, Kampala	
Interstate Insurance Services Ltd	P.O.Box 4999, Kampala	
Liasion Insurance Brokers Ltd	P.O.Box 22791, Kampala	
Liberty Insurance Brokers Ltd	P.O.Box 3190, Kampala	
P.R.P. Insurnace Insurance Services Ltd	P.O.Box 24407, Kampala	
Rock Insurance Services Ltd	P.O.Box 28810, Kampala	
Royal Insurance Consultants Ltd	P.O.Box 8206, Kampala	
Safeway Insurance Services Ltd	P.O.Box 182, Kampala	
The InterContitental Insurance Brokers Ltd	P.O.Box 8060, Kampala	
Vital Insurance Services Ltd,	P.O.Box 792, Kampala	
Loss Assessors		
Multiple Consult Network Ltd	P.O.Box 3613, Kampala	
Uganda Loss Adjusters and surveyors,	P.O.Box 1320, Kampala	
INSURANCE SURVEYORS AND LOSS ASSESSORS		
B.R.B Surveyors and Adjusters,	P.O.Box 3613, Kampala	
Independent Adjusters Uganda Ltd		
Tibabiganya & Partners,	P.O.Box 4848, Kampala	