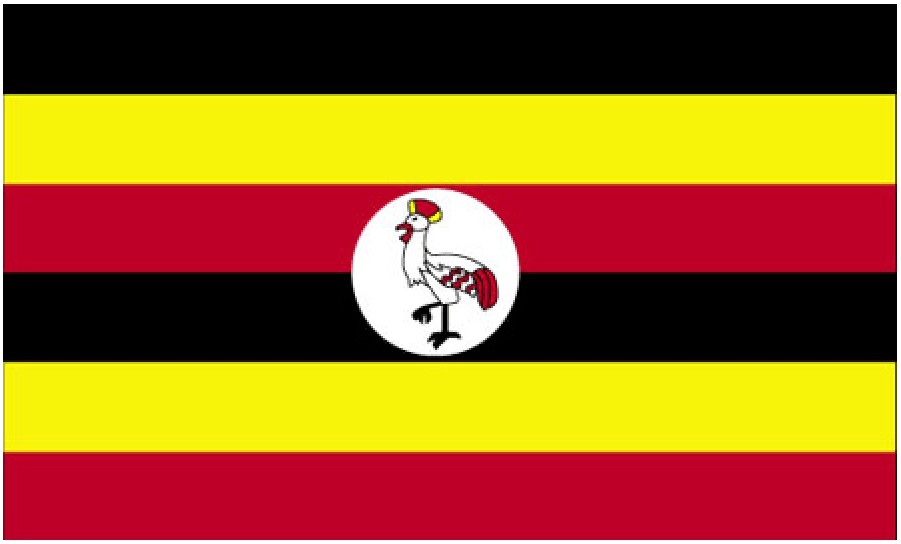
# Uganda

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**History:**

The colonial boundaries created by Britain to delimit Uganda grouped together a wide range of ethnic groups with different political systems and cultures. These differences prevented the establishment of a working political community after independence was achieved in 1962. The dictatorial regime of Idi Amin (1971-79) was responsible for the deaths of some 300,000 opponents while guerrilla war and human rights abuses under Milton Obote (1980-85) claimed at least another 100,000 lives. The rule of Yoweri Museveni since 1986 has brought relative stability and economic growth to Uganda. During the 1990s, the government promulgated non-party presidential and legislative elections.[1]

**Population and Macro:**

The Ugandan population is estimated at 31,367,972 in July 2008[2]. Uganda's GDP in PPP is estimated at $34.23 billion with the corresponding GDP per capita at 1,257 in 2008.[3] The GDP is forecasted to grow at an average of 6.4% real growth rate. Services, Agricultural and Industrial sectors comprise the greatest proportion of the GDP at 46.2%, 29%, and 24.8% respectively. Still, agriculture remains the largest source of employment within the country. Inflation is averaged 8.5% rate in 2009[4].

**Banking System:**

Following a deep banking crisis in 1998-1999, Uganda's banking sector has experienced a recovery and the regulatory environment has focused on creating security, confidence and maintaining strong capitalization rates. The sector has experienced tighter supervision from the Bank of Uganda, and higher capital requirements with the passing of the Financial Institutions Act in 2004 and the Financial Institutions Regulations in 2005. This facilitated a quick recovery of the sector following the closing of several domestic banks in 1998 and 1999.

As of May 2009 there are 23 licensed banks operating in the country (See Appendix A), 22 of which are operational. Commercial banks hold approximately US$3.5 billion in total assets made up of approximately 5 million accounts. This is equivalent to a 16% commercial bank penetration rate given the current population.

Most banks are foreign owned, including major international institutions such as Stanbic (South Africa), Citibank (USA), Barclays (United Kingdom), and Standard Chartered (United Kingdom). However, a number of locally based banks have been established including

[1] CIA Factbook Website: https://www.cia.gov/library/publications/the-world-factbook/geos/ug.html
[2] CIA Factbook Website: https://www.cia.gov/library/publications/the-world-factbook/geos/ug.html
[3] Economist Intelligence Unit, Country Report
[4] Economist Intelligence Unit, Country Report

Development Finance Company of Uganda (DFCU) Bank, Nile Bank, and Cerudeb (Centery Rural Development Bank). The Central Bank of Uganda is responsible for supervising the activities of each licensed commercial bank operating in the country.

According to the IMF, Uganda has one of the most developed financial systems among low-income oil importing nations (including, Ghana, Kenya, Mozambique, Tanzania, and Zambia) which has substantially increased in importance in the last 3 years. The financial sector forms approximately 29.6% of the service contribution to GDP, which is approximately US$ 2.1B, or 13.5% of total GDP. Services are the fastest growing sector of the economy, contributing 45% of total GDP (US$ 7.1 B). The latest IMF data, reports that Deposit Money Bank assets formed 15.7% of GDP in 2007.[5]

Uganda has made significant strides in regulating the banking sector by classifying financial institutions into groups so as to facilitate the granting of licenses for commercial operations. There are four tiers of financial institutions (See Appendix A), Two Development Banks, Four Investment Banks, ten FOREX bureaus, and twenty insurance companies.

Commercial banks are classified as tier 1 institutions, and are authorized to hold checking, savings and time-deposit accounts for individuals and institutions in local as well as International currencies. Commercial banks are also authorized to buy and sell foreign exchange, issue letters of credit and make loans to depositors and non-depositors.

The 22 banks currently operating in Uganda, hold approximately USD $3.5 Billion in assets, and approximately 61% of those assets are held by banks that are majority owned by foreign entities (See Appendix A). The banking industry is relatively young, with approximately 20% of all commercial bank assets held by institutions that entered Uganda as licensed commercial banks after 1990.

Nine of the commercial banks are listed on a stock exchange. The publicly listed Africa based banks (6) are listed on the Ugandan Stock Exchange (USE), the Nigerian Stock Exchange, (NSE) or both, with Ecobank, Uganda's 17th largest bank, listed on the Ghana Stock Exchange (GSE) and the NSE. For the most part, banks are fully privatized. Tropical Bank, Uganda's 10th largest bank, which focuses on the financing of manufacturing, construction, trade, commerce, education, transportation and tourism, is 99.7% owned by the government of Libya. The remainder is owned by the government of Uganda. Similarly, the Housing Finance Bank, focused on mortgage lending, is 50% owned by the National Social Security association and 45% owned by the Government of Uganda, with the PostBank owned 100% by the Ugandan government.

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[5] IMF 2007, Sub Saharan African Financial Systems and the Global Financial Shock

Most Commercial Banks use deposits from customers, deposits from other banks or other borrowed funds as primary sources of funds. Funds are primarily used to loan to customers, invest in securities or purchase property and equipment.

Overall, sector earnings have risen due to increased lending to the public, largely financed by a growing deposit base. The aggressive drive to increase customer deposits was caused by the Bank of Uganda's decision to withdraw all government project funds from commercial banks in 2005. However, the banking sector continues to experience a wide disparity between the lending and deposit rates, increasing the risk profile of the country as lending increases. In 2008 the average estimated interest spread was 9% with an average lending rate of 19.7% and an average deposit rate of 10.7%.[6] This represents an approximate 0.8% decline, from the 2007 rate of 9.8% in 2007 with an average lending rate of 19.1% and a deposit rate of 9.3%.

Over the last 4 years, lending rates have averaged between 19-22%, compared to an average rate of 13% in Kenya and 17% in Tanzania. According to analysts, these high rates are primarily driven by system inefficiencies primarily due to: (i) high operational costs (ii) the absence of long term financing (iii) high risk borrowers and (iv) the oligopolistic structure of the banking sector.

Nevertheless, private-sector domestic credit has grown rapidly, increasing by over 50% in 2007/08, although this gain comes given a relatively low starting point: private-sector credit was equivalent to just 9.1% of GDP in 2006/07.[7] The increase in private sector credit resulted in Uganda jumping from 158$^{th}$ in facility of attaining private sector domestic credit in 06/07 to 109 in 07/08, according to World Bank rankings. This shift was due primarily to the government's effort at expanding financial intermediation, especially within the retail sector. Although expansion in credit is positive, because the Ugandan economy began with an extremely low base, this growth continues to emphasize the need for decreasing lending spreads.

The government is also looking to establish a loan guarantee scheme to support the extension of credit by commercial banks to agricultural and agro processing projects. The scheme will guarantee 50% of loans to such projects and UGX 50 billion (aprox. US $22 M) has been allocated for this purpose. It is hoped that the guarantee scheme will help increase credit for agro projects as well as reduce the cost of borrowing.

In 1994 Parliament enacted the Deposit Insurance Scheme. This provides partial deposit insurance, by charging an annual premium of 0.2% of all deposits to licensed, deposit taking institutions. Each account (except foreign and interbank accounts) is protected for

[6] Economist Intelligence Unit, Country Report
[7] Economist Intelligence Unit, Country Risk Profile

approximately USD $1823.[8] The law states that all depositors must be paid within 90 days of bank failure, and that the assets of failed banks would then be sold by auction, unless determined that a better economic value could be attained if the bank is sold as a whole. In the latter case, the bank would be re-launched under new ownership and management, if the new management is approved by the bank of Uganda.

**Figure 1:** Deposit Insurance Schemes across Africa, IMF

**Sub-Saharan Africa: Deposit Insurance Systems**

| Systems | Kenya | Nigeria | Tanzania | Uganda |
|---|---|---|---|---|
| Year established | 1985 | 1988/9 | 1994 | 1994 |
| Types of deposits covered | All | All except foreign currency | All except foreign and interbank | All except foreign and interbank |
| Coverage limits NC (US$) | K Sh 100,000 ($1366) | N 50,000 ($425) | T Sh 500,000 ($390) | U Sh 3 million ($1823) |
| Coverage ratios[1] | 1.5 | 0.3 | 0.8 | 3.9 |
| Coinsurance | No | No | No | No |
| Permanent fund | Funded | Funded | Funded | Funded |
| Annual premiums | 0.15% of deposits | 0.9375% of deposits | 0.1% of deposits | 0.2% of deposits |
| Premium assessment base | Deposit liability | Deposit liability | Deposit liability | ... |
| Risk adjusted premium | No | No | No | No |
| Operational independence | Within Central Bank | Independent agency | Within Central Bank | Independent agency |
| Resolution powers | Significant | Significant | Minimal | ... |
| Membership | Compulsory | Compulsory | Compulsory | Compulsory |

[1] Ratio of coverage limit to 2008 per capita GDP.

Sources: International Association of Deposit Insurance (IADI), World Bank; *Deposit Insurance Schemes*, and Demirguc-Kunt and Sobaci (2001).

### Insurance & Other Financial Institutions:

The Insurance sector remains a relatively small part of the financial system, although it is growing in size. There are 21 licensed and operating insurance companies in the country.[9] There are 13 foreign and 8 national players. Similar to banks, these companies are a mixture of publicly and privately owned firms which cover life, property and casualty, but the extent of coverage in these three areas remains limited. Health Insurance remains largely untapped, while areas like fire insurance are new markets only recently entered. The Life insurance business is posting below industry earnings, with the top 3 players, National Insurance Company (Uganda owned), Jubilee Insurance (Kenya owned) and the East African Underwriters (British owned) all posting Life Insurance declines in 2008. The state owned insurance company, National Insurance Company, is currently undergoing privatization with the government is looking to sell its shares through the Ugandan Stock Exchange. Overall, despite declines in Life, the Sector is posting attractive growth numbers, growing gross premiums by 25% in 2008 to of US $87.3 Million. Publicly listed regional and national companies are trade on the Uganda Stock Exchange as well as on the Nigerian Stock exchange.

[8] IMF, African Crisis (2009)

[9] The Independent, February 2009: http://www.independent.co.ug/index.php/business/business-news/54-business-news/614-foreign-competition-threatens-indigenous-insurance-companies

Currently, Uganda is setting up a re-insurance company, for which it received government approval in early 2009. A strategic investor will handle the company and it is estimated that the establishment of a domestic re-insurance company will stabilize insurance industry revenues and prevent approximately US $30 million in foreign exchange outflows from insurance companies purchasing reinsurance from foreign companies.

**Tier II – IV Financial Institutions**

In addition to Insurance and Commercial banks there are 3 additional tiers of regulated financial institutions.

**Tier II:** This class includes Credit and Finance companies. They are authorized to take in savings deposits but are not allowed to establish checking accounts or to trade in foreign currency. They are authorized to make collateralized and non-collateralized loans to depositors and non-depositors. There are two institutions, both of which are indigenous.

**Faulu Uganda:** Registered in 1995 and began lending operations in May 1996. Faulu Uganda started as a program of Food for the Hungry International (a non-government organization) but incorporated as a Limited Liability Company in July of 1999. Faulu Uganda is currently part of the Faulu Africa Network that includes microfinance companies in Uganda and Kenya. Principal Customer Segment is Low Income individuals in particular farmers in rural areas. Has recently launched two savings products one, with a low balance limit approximately US $4.40, with a rate of 8% and one with a higher limit of US $44 and a rate of 13%. Faulu's principal mission is to provide access to finance and savings to rural areas and farmers for development.[10]

**Mercantile Credit Bank:** No information available.

**Tier III:** This class includes microfinance institutions which are allowed to take in deposits from customers in the form of savings accounts. Members of this class of institutions are also known as Microfinance Deposit-taking Institutions or MDIs. MDIs are not authorized to offer checking accounts or to trade in foreign currency. There are 3 institutions in this category.

**Finca Uganda Ltd:** Non Profit, microfinance organization based in Washington DC, USA that has been licensed as a microbank in Uganda and other developing countries. Bank village bank credit and savings product are core in African countries including Uganda. FINCA has partnered with leading insurance companies to offer health and life insurance products, health care, and business-interruption coverage in response to the African AIDS crisis. FINCA Uganda, is a world pioneer in micro insurance and has partnered with AIG to provide life insurance, to ensure that

[10] Source:
http://www.monitor.co.ug/artman/publish/smartmoney/Faulu_Uganda_launches_saving_products_84429.shtml

the death of a village bank member does not result in hardship for other village bank members or for the family of the deceased as the client's loan is paid off.

**Promotion of Rural Initiatives and Development Enterprises Microfinance Ltd (PRIDE):**

PRIDE Microfinance started as PRIDE Africa in late 1995, but the mainly donor-funded project changed names in 1999 to become PRIDE Africa Uganda Limited after it was incorporated as a limited company. The company, mainly supported by the Norwegian Agency for Development Cooperation, was created to offer credit to the poor, targeting those in the agricultural sector. In 2003, however, government took over the company, changing the name to PRIDE Microfinance Limited, a company limited by shares. Pride Microfinance was also supported by AfriCap Microfinance Fund, a private equity fund, which, last year, invested $1 million in the company. The government has been shopping for a private investor to take over the company, which is why it was granted Tier III status. Pride is Uganda's most profitable MDI.

**Uganda Finance Trust Limited:**

Uganda Finance Trust Ltd MDI (Finance Trust) is one of the oldest Microfinance Institutions in Uganda having started its operations in 1984. The company is licensed and regulated by Bank of Uganda as a Micro Deposit Taking Institution (MDI) and is recognized as a key player and part of Uganda's formal financial sector. The company has one of the largest branch networks in Uganda with 23 interconnected branches strategically positioned all over the country and serves over 127,000 customers with a variety of savings and loan solutions including business loans, salary loans, school fees loans, savings accounts, fixed deposits and a money transfer service through Money Gram International. The company has a diversity of shareholders mixing both local and international players i.e. OikoCredit from the Netherlands 24.1%, I&P from France 20.5% in addition to UWFT (a local NGO) 29.8%, a group of Prominent Ugandan women entrepreneurs 13.5% (founder members) and Sun Mutual, an employee cooperative society 12.1%.[11]

**Tier IV:** These institutions are not regulated by the Bank of Uganda. They are not authorized to take in deposits from the public, but they may offer collateralized or non-collateralized loans to the public. In 2008, it was estimated that there were over 1,000 such institutions in the country.

**Other Financial Institutions**

In addition to the four tiers of Institutions there are Two Development Banks, Four Investment Banks and Ten Forex Bureaus. These are all regulated by the Bank of Uganda.

[11] Source: Company Website, http://www.financetrust.co.ug/

**Development Banks**

**East African Development Bank (EADB):** leading development finance institution with the objective of promoting development in East Africa. EADB plays a threefold role of lender, adviser and development partner. The bank provides a range of products and services, tailor made for the region's development requirements including loans, leasing, real estate, Trade finance and equity investments. As of February 2009, the capitalization of EADB is valued at approximately US$275 million. The bank is primarily owned by the governments of Tanzania, Rwanda, Uganda and Kenya, each holding a 20.94% stake. The African Development Banks holds a 7,8% stake, and the rest is split amongst other private banks and financial institutions.

**Uganda Development Bank (UDB):** The bank is the first development finance institution established by the Government of Uganda, with operations beginning in 1972. The main objective of UDB is to promote and finance development in various sectors of the economy with particular emphasis on agriculture, industry, tourism, housing and commerce. UDB provides financial assistance through loans and equity participation. Sources of funds are loans from both local and foreign institutions, however the amount of funds borrowed is regulated y the Ugandan Ministry of Finance. As of February 2009, it is estimated that the total asset valuation of Uganda Development Bank is approximately US$30 million.[12] The bank is 100% owned by the Government of Uganda.

**Investment Banks**

**African Alliance Investment Bank:** African Alliance has been in Uganda since 1997. Currently provides services to the Government, major corporations, multi-nationals, NGOs, co-operatives and individuals. Offers asset management, corporate advisory and securities services in Uganda

**Dyer & Blair Investment Bank:** Dyer & Blair Ltd established operations in Uganda in 2007. It is a fully fledged subsidiary of the Kenyan company. Dyer & Blair was a founding member of the Uganda Securities Exchange. The bank provides stockbrokerage and Corporate Finance services for Ugandan clients. Dyer & Blair was the Lead Foreign Broker for the successful Development Finance Company of Uganda (DFCU) IPO. The firm also acted as the Sponsoring Broker for the highly successful Stanbic Bank IPO placing over 37% of the UGX 70 billion issues (aprox. US $30.8 Billion). The listing of the bank has raised the profile of Uganda's capital markets and is expected to further deepen and integrate the regional capital market. Currently, the bank is the transaction advisor to the Uganda Clay Rights issue, and is also the Transaction Advisor and lead broker to the New Vision Printing & Publishing Company Ltd Rights issue. Dyer & Blair began operations in Kenya and has offices in Nairobi and Kampala, Uganda.

[12] Source: Company Website, http://www.udbl.co.ug/about_us.html

**Merchant Bank of East Africa (MBEA):** Headquartered in Kampala, Uganda, the firm is a Licensed Dealing Member (LDM) and founding member of the Uganda Securities Exchange (USE) and was issued with a Broker/Dealer license and an Investment Advisor's license by Uganda's Capital Markets Authority (CMA) in May 1997. MBEA works with private and public sector entities to develop the country's primary and secondary securities market by assisting institutions in sourcing alternative forms of competitively priced capital, to expand the alternative investment vehicles currently available to the business community, government and the public. Key services include, corporate finance, financial advisory, financial intermediation, brokerage, investment management. [13]

**Renaissance Capital Investment Bank:** Russia based bank which was licensed to operate in Uganda in 2005 . Renaissance Capital Limited ("RCL") is a wholly owned subsidiary of RFHL (Uganda), an investment house incorporated in Uganda, and licensed by the Uganda Capital Markets Authority to carry on business as an Investment Advisor and Dealer/Broker. RCL carries on the business of providing Corporate & Project Finance advice and Structured Finance solutions to corporate Uganda and to the East African markets. RCL also provides Asset Management and brokerage services to both corporate and retail investors. These services are also backed by equities and derivatives research capabilities.

In 2008 a credit reference bureau, Compuscan, was also established. Compuscan is based in South Africa, has subsidiaries in Botswana, Namibia, Rwanda and Uganda, with new establishments planned in Kenya and Zambia. It is expected that new credit risk assessment will enable the development of new products, including medium and long-term financing (e.g., car loans and mortgages) which have recently been introduced by most Ugandan commercial banks. Additionally, the establishment of the credit bureau is expected to help further decrease commercial bank lending spreads.

**Overall Banking System Performance:**

Despite the current economic crisis, Ugandan banks are relatively strong. They are well capitalized, have satisfactory liquidity ratios, and are not widely exposed to toxic assets. Low levels of non-performing loans continue to be recorded. The recent strengthening of the system is due to the governments focus on upgrading the legal and regulatory framework of the banking system. Fundamental improvements have included financial sector liberalization and increased Central Bank supervision which reduced the non performing loans of banks to 4% from 50% nearly ten years ago.[14]

In part the relative insulation from the global credit crunch is also due to Uganda's limited integration into the world financial system.

[13] Source: Company Website, http://www.mbea.net/profile.php
[14] Economist Intelligence Unit : Country Risk Assessment

**Financial Development relative to other African Countries:**
The IMF has classified African financial development into 3 categories Emerging Markets, Frontier Markets and Financially Developing Markets. Uganda is a Frontier Market.

**Frontier market[15]:** This means there is limited integration of their financial systems with global markets, smaller financial systems and linkages within the system are limited, implying localized financial stress that spreads more slowly in times of crisis. However, although foreign investors account for a relatively small share of local debt and equity markets in these economies, because the markets are relatively shallow, changes in foreign investor sentiment can exert pressures on markets. Unsettled international markets also make it more difficult for issuers to access the markets.

**Emerging Markets** (South Africa only): classified as having vulnerable to changes in market sentiments and to contagion. It is thus subject to potential pressures in financial markets, although strengthened supervision of banks and enhanced risk management by banks are mitigating factors. Corporations and sovereigns are less dependent on funding abroad than in other emerging markets, however, unsettled global markets inevitably affect access to international markets—primarily through increased spreads.

**Financially Developing Markets[16]:** narrow range of financial institutions, relatively small sizes and their lack of access to credit limit the direct impact of the external shocks. For these countries, the shocks are likely to arrive through other channels, such as slowing growth or declining commodity exports and prices.

**Figure 2:** Indicators of Financial Development across African Countries

**Sub-Saharan Africa: Indicators of Financial Development, 1990–2008**

| | Sub-Saharan Africa | | | South Africa | | | Frontier Markets | | | Financially Developing | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1990-99 | 2000-04 | 2005-08 | 1990-99 | 2000-04 | 2005-08 | 1990-99 | 2000-04 | 2005-08 | 1990-99 | 2000-04 | 2005-08 |
| Bank deposits/GDP | 26.7 | 29.2 | 31.8 | 46.6 | 50.5 | 58.1 | 16.0 | 20.5 | 22.2 | 13.7 | 15.8 | 16.4 |
| Private sector credit/GDP | 27.4 | 29.4 | 33.8 | 55.6 | 63.5 | 72.1 | 11.1 | 14.0 | 18.4 | 10.9 | 9.8 | 10.5 |
| M2/GDP | 30.7 | 32.5 | 36.4 | 49.4 | 52.8 | 61.3 | 20.0 | 22.7 | 25.8 | 19.5 | 21.5 | 21.0 |
| Liquid liabilities/GDP | 16.1 | 18.1 | 22.4 | 28.7 | 33.0 | 43.5 | 10.2 | 12.4 | 14.2 | 6.9 | 8.4 | 8.5 |

Source: IMF, *International Financial Statistics.*

**The Central Bank:**

The Bank of Uganda was established on 16 May 1966 as the bank of issue, undertaking the function previously served by the East African Currency Board in Nairobi. The government-owned Uganda Commercial Bank (UCB) provided a full commercial banking service, complementary to and in competition with other commercial banks in the country.

[15] Includes: Botswana, Cape Verde, Mauritius, Namibia, Seychelles, Ghana, Kenya, Mozambique, Nigeria, Tanzania, Uganda and Zambia.
[16] Includes: The rest of Sub- Saharan Africa, total 31 countries.

The vision of Bank of Uganda is that of a monetary institution which upholds international best practices in fostering price stability and a sound financial system conducive to macro-economic stability, and broad based economic growth.

Currently, the Bank's activities can be categorized as follows:

Issuing Uganda's national currency / legal tender, the Uganda Shilling (UGX)

Regulation  of money supply using monetary policy

Serve as Banker to the Government of Uganda

Serve as Banker to Commercial Banks

Supervision and regulation of Financial Institutions

Management of Uganda's external debt

Advise Government on financial and economic issues

**Interest Rate Setting[17]:**

Interest rates were liberalized in 1992, key lending and deposit rates became market determined and linked to the auction determined Treasury bill rate. Interest rates paid on demand deposits are no longer subject to any minimum rate.

Interest rates on Savings and on time deposits with maturities up to one year are also linked to the reference rate, which is a moving average of the annualized discount rate on 3 month treasury bills in the four preceding auctions.

There are 4 primary rates that the Bank of Uganda sets and tracks:

<u>Policy Margin for the re-discount rate:</u> The cost to a bank if it chooses to access the Bank of Uganda Rediscount window to obtain the reserves it needs. This margin is set by Monetary & Credit Policy Committee (MCPC).

<u>Reference Rate:</u> Moving average of the 4 most recent auctions' annualized direct yields on the 91-day Treasury bill. Financial Markets Operation Committee (FMOC) monitors the prevailing

[17] Bank of Uganda, Financial Market Division, June 2007S

rates in the government securities markets and advises MCPC when they encroach on the rediscount rate.

Rediscount Rate(RR): the rate at which BOU will discount government securities offered by the holder. It is computed by adding a policy margin to the reference rate

The Bank Rate: BR is the interest rate at which BOU lends funds to commercial banks against government securities. This rate is set by the MCPC, and is at least 1% above the RR.

**Exchange Rates**[18]

Currently the Bank of Uganda has set a flexible exchange rate policy and maintains large levels of reserves. This enables easy intervention which smoothes out most fluctuations, and maintains currency moves in line with economic fundamentals. The central bank employs limited intervention in the foreign-exchange market in order to reduce volatility and sells US dollars to support the IMF-driven policy of sterilizing excessive liquidity.

Currently rates are determined by a weighted average of the rates determined by each Foreign Exchange Bureau. This has framework has been in effect since October 1992.

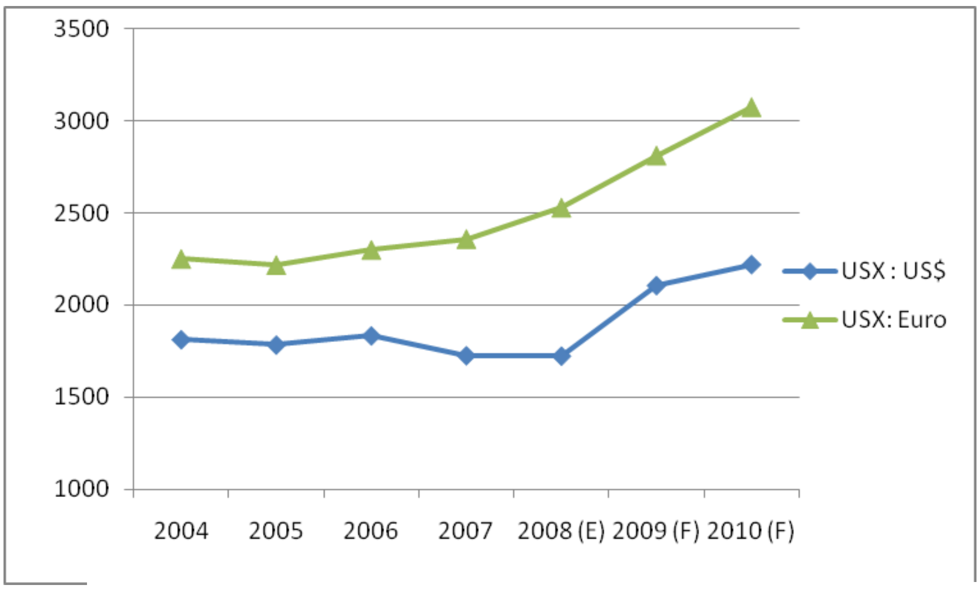
Prior to 1992 Uganda had a controlled foreign exchange regime and upheld a wide variety of foreign exchange policies under this period. Those were as follows:

| **Years** | **Adopted Policy** |
|---|---|
| **1966 - 1971** | A par value of 0.124414gram of gold per Uganda shilling was maintained |
| **1971 - 1975** | The Uganda shilling was pegged to the dollar at a rate of UGX 7.14286 |
| **1975 – 1980** | Shilling was pegged to the SDR at UGX 9.66 due to volatility of the dollar |
| **1981** | The shilling was floated. This saw the rate drop to Uganda shillings 76.97 to a dollar form Shs.8.1453 |
| **1982** | A dual exchange rate regime was introduced and foreign exchange was auctioned through a system known as Window 1 and Window 2 |
| Window 1 | Was for financing priority imports and the rate was determined daily taking into account the value of the dollar against other currencies and the economic conditions in the country |

[18] http://www.bou.or.ug/bouwebsite/opencms/bou/collateral/about_financial_markets.html

| | |
|---|---|
| Window 2 | Was for financing non-priority imports |
| **1986** | The auction system was replaced by allocation based on a rate of Shs.1470 to a dollar.<br>The dual exchange rate was re-introduced at a fixed rate of UGX 1400 to a dollar. |
| **1987** | In May 1987 the shilling was devalued by 66% from UGX14 to 60. This was after the currency reform |
| **1990** | Forex Bureaus were introduced |

**Figure 3:** Ugandan Exchange Rate Trend 2004 - Present




Source: Economist Intelligence Unit: Country risk Report, 2009

At present the Forex market has the following participants:

The Bank of Uganda
The inter-bank market (where commercial banks trade with each other).
The Forex Bureau (that act as money shops)
Retail customers or end users of FOREX

**Exchange Rate Statistics and Historical Data:**
**http://www.bou.or.ug/bouwebsite/opencms/bou/rates_statistics/statistics/statistics.html**

**Monetary policy**

Monetary policy is set by the Monetary and Credit Policy Committee (MCPC) of Bank of Uganda. The committee has the following terms of reference:

To formulate and direct the conduct of monetary policy in order to deliver price stability and support government objectives for sustainable growth.

Direct the conduct of the financial markets operations.

Ensure that liquidity conditions in the money market are consistent with the broad objective of price stability

Review developments in the foreign exchange market and formulate policies to support macroeconomic stability

Address any other issues that have implications for the stability of the macro-economy including appraising policy recommendations from the Bank's functions, Government departments and other forum.

Members of this committee:

The Governor (Chairman), Deputy Governor, all the Executive Directors, the Board Secretary, the Director Commercial Banking, and Director Research (Secretary). Other bank officers attend on invitation.

**Bank Services and Responsibilities:**

Trade and Loan Monitoring

Bank of Uganda is charged with providing reliable information on the country's international trade position, monitoring foreign private capital (inflows / outflows) and remittances, as well as managing the external debt recording and its analysis for guidance to policy makers.
It has now embarked on risk analysis as a strategic activity to quantify the costs and risks associated with Uganda's sovereign liabilities.

Bank of Uganda carries out the following key activities and functions in this regard:

Coordinate the collection and analysis of external trade statistics
Monitor donor fund inflows for budget support and Government projects
Monitor foreign private capital flows in and out of the country
Monitor remittances
Establish and maintain efficient and effective data/information management systems on the external public and publicly guaranteed debt, private sector external debt, budget support and disbursement of grants
Manage public and publicly guaranteed debt, in liaison with MoFPED

The Payments System

In 1998, the Bank of Uganda adopted a strategic and collaborative approach to developing the country's payment system. The basic tenets of the approach included:

A holistic approach to the analysis of the existing system, determination of the present strengths, weaknesses and challenges
Development of appropriate strategies to enhance the efficiency and strengthen risk management in the country's payment system
A collaborative approach with the different stakeholders in the payment system process

**Fixed Income Markets:**

**Government Securities**

Uganda's securities market includes trade in Treasury bills and Treasury Bonds. These make the following markets:

The Treasury Bill primary market
The Treasury Bill secondary market
The Treasury Bond primary market
The Treasury Bond secondary market

The primary function of the securities market is to support monetary policy implementation by providing an instrument of liquidity management. As of the first quarter of 2007, the ratio of Treasury bills to Treasury bonds stood at 51:49. The Central Bank aims to achieve an optimal debt mix of bills to bonds of 40:60. In 2007, government debt issues approximated 12% of total GDP, aprox. USD $1.1 Billion while overall debt was approximately 14% of GDP or US $1.3 Billion[19] (SOURCE) .

<u>Types of Treasury bills used in Uganda</u>[20]

**The Bearer Treasury Bills Certificates:**. Were the initial certificates used in the market, but did not activate secondary market trading due to security risk.

**The book-entry Central Depository System (CDS):** To counteract the safety concerns regarding the bearer treasury bill certificates, the Bank introduced the electronic registry of investors in government securities called the book-entry Central Depository System or CDS in 1999. The CDS solved problems of transferring ownership of securities, but introduced new problems. The laws of Uganda were written so that a security had to be in paper form and the Courts did not recognize electronic securities eliminating the legal utility of the new system. To solve the problem, the **Financial Accountability Act of 2003** gave the Minister of Finance and Economic

[19] Source: African Development Bank, "Developing Bond Markets in Emerging markets"
[20] http://www.bou.or.ug/bouwebsite/opencms/bou/collateral/about_financial_markets.html

Development and Planning powers to issue securities both in paper and electronic form. Paper treasury bills have now been discontinued.

Treasury Bills securities are issued for 91 days, 182 days and 364 days in the primary market. Primary issues are done through a multiple price auction system, with bids accepted on both competitive and non-competitive basis. Treasury bills are auctioned every two weeks.

Secondary market in Treasury bills

To stimulate the development of secondary market trading, the Bank of Uganda extended the interval between auctions to provide a greater incentive for investors to source the supply of treasury bills in the secondary market.

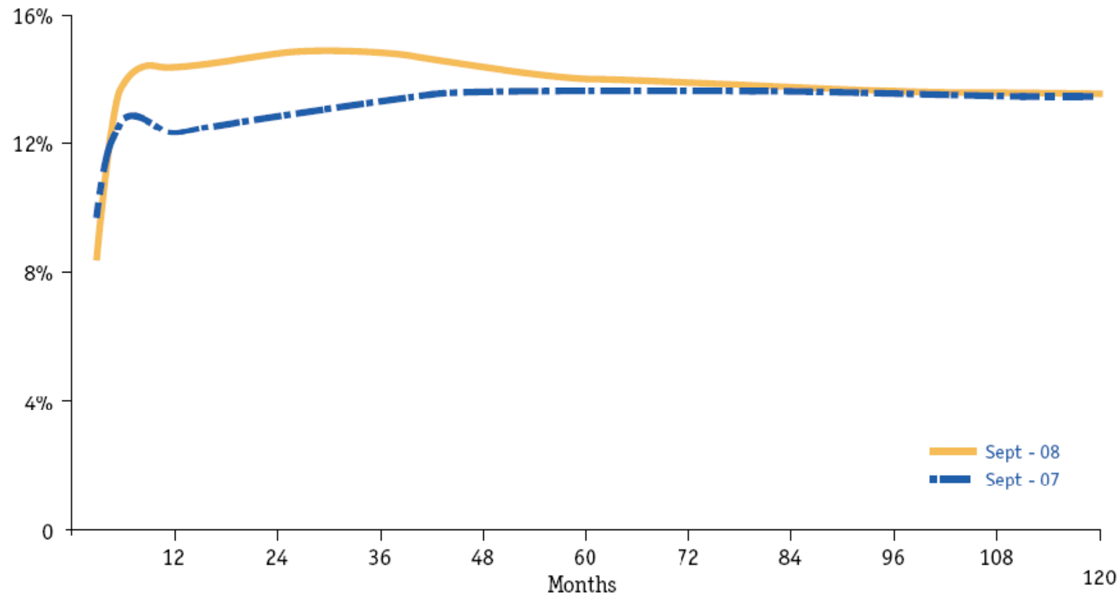
**Primary Dealer ranking system**: This system was introduced in 2005 by the Bank of Uganda, with the appointment of five commercial banks, Barclays Bank, Standard Chartered Bank, Stanbic Bank, Bank of Baroda and DFCU Bank. These firms buy government securities at auction prices and sell to investors in the market, in a bid to increase market efficiency by encouraging secondary market trading of securities.

The Treasury Bond Market

Auctions for Treasury Bonds were introduced in January 2005 with a 2-year issue. Following the success of the issue, 3-, 5- and 10-year bonds were launched in February, March, and May of 2005, respectively. Treasury Bonds are auctioned every 28 days. The bonds support monetary policy implementation by improving liquidity management and promoting market development. These securities also assist in providing a framework for pricing of securities in the secondary market. Bonds have also provided an additional saving instrument and have deepened the capital market.

The central bank aims to issue more long-term instruments as opposed to short-term securities, in order to meet demand for securities as the domestic market expands and more market players
get involved.

**Figure 4:** Bank of Uganda Yield Curve




Source: USE Trading Dept.

**The Repurchase Agreements (Repo) Market**

Repos were introduced to manage intra-auction liquidity variations. The vertical repo market reflects repo transactions between primary dealer commercial banks and the central bank.

This market was introduced in 2002 by the Bank of Uganda as a mechanism to deal with managing liquidity in the banking system in the interval between auctions of treasury bills.

These REPOs are auctioned within the repo market.

**Non Central Bank Bond Issues**

Currently, there are 4 corporate bond issues and traded on the Ugandan Stock Exchange. Private sector issuers comprise of banks and telecommunication companies. Management of primary market issues is dominated by foreign banks, in most cases working with a local broker dealer.

**Table 1:** Corporate Bond Offerings

| Company Name | | Amount Offered | Industry | Issue Year | Tenor (years) | Coupon |
|---|---|---|---|---|---|---|
| **1.** | Standard Chartered Bank (Uganda) | $10,200 | Banking | 2005 | 10 | 182-day bill + 1.25%<br>15.75% Fixed |
| **2.** | Eastern Africa Development Bank | $8,880 | Banking | 2005 | 7 | 182-day bill + 0.75% |
| **3.** | UTL – Uganda | $10,700 | Telecom | 2003 | 5 | 182-day bill + |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Telecom | | | | | 1.65% |
| **4.** | Unknown company | N/A | N/A | N/A | N/A | N/A |

Source: Africa Development Bank, Uganda Report 2007

**The Stock Market**

The Development of Capital Markets in Uganda

In 1994 Bank of Uganda chaired the Capital Markets Development Committee (CMDC), which was comprised of stakeholders of capital market interests from financial markets, industry and government. The CMDC oversaw the introduction of the Capital Markets Statute 1996 which introduced the Capital Markets Authority (CMA) and made provision for the licensing of the Uganda Securities Exchange. The CMDC works with Government to adopt a strategy of privatizing para-statals by listing them on the Stock Exchange. There are a total of 10 listed companies and one company which will soon be privatized.

It is expected that the trading platform will be automated and integrated with the other African Stock exchanges, facilitated by the passage of the Securities Central Depository Bill. The Central Depository System (CDS) will automate the current manual market into an electronic one where share certificates will be 'deposited' in book entry form (like a bank account) into the system to ease the transfer and ownership of shares and each entry will be given a CDS Account.

**Table 2:** Listed Companies

| Company | Industry | Shares Issued (000)[1] | Mkt Cap ($M)[2] | Stock Price[3] | IPO Date |
|---|---|---|---|---|---|
| **Bank of Baroda (BOBU)** | Banking | 400,000[4] | $201 M | $0.27 | 11/2002 |
| **DFCU Limited (DFCU)** | Banking | 248,700[4] | $88 M | $0.35 | 10/2004 |
| **New Vision Ltd (NVL)** | News / Media | 76,500[4] | $65 M | $0.85 | 12/2004 |
| **Stanbic Bank (SBU)** | Banking | 5,119,900[4] | $442 M | $0.08 | 01/2007 |
| **Uganda Clays Ltd (UCL)** | Construction | 900,000,000[4] | $78 M | $0.09 | 01/2000 |
| **British American Tobacco (BATU)** | Tobacco | 49,080[4] | $13 M | $0.26 | 06/2000 |
| **East African Breweries LTD (EABL)** | Brewing | 790,800[4] | $1.3 B | $1.60 | 03/2001 |
| **Jubilee Holdings Ltd (JHL)** | Insurance | 45,000[4] | $66 M | $1.47 | 02/2006 |
| **Kenya Airways (KA)** | Airlines | 461,617[4] | $141 M | $0.31 | 03/20 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | 02 |
| **KCB Group (KCB)** | Banking | 2,217,800[4] | $556 M | $0.25 | 11/2008 |
| **National Ins Corp** | Insurance | In process of Privatization – To Be Listed Soon | | | |

Source: Uganda Stock Exchange Annual Report 2008.1) Rounded to the nearest Hundred thousand 2) Rounded to the nearest Million & Based on an exchange rate of $0.00045 p/UGX. 3) Based on an exchange rate of $0.00045 p/UGX. 4) As of September 30[t] 2008 (USE Annual Report). 5) As of April 30 2009.

**Table 3:** Listed Companies Trade Statistics

| COMPANY | DEALS | SHARES VOLUME | TURNOVER(USD)[1] | Turnover as % of Capitalization |
|---|---|---|---|---|
| BATU | 994 | 9,430,506 | 3,342,875.55 | 26.00% |
| BOBU | 2,500 | 8,626,156 | 6,895,679 | 3.000% |
| DFCU | 2,821 | 56,553,456 | 13,514,839 | 15.00% |
| EABL | 55 | 364,735 | 379,758.10 | 0.030% |
| JHL | 2 | 2,000 | 2,432.25 | 0.004% |
| KA | 63 | 1,012,912 | 85,474.89 | 0.060% |
| KCB | 36 | 35,685 | 9,318.285 | 0.002% |
| NVL | 2,944 | 30,343,908 | 6,128,409 | 9.000% |
| SBU | 21,080 | 623,542,268 | 49,032,425 | 11.00% |
| UCL | 5,179 | 49,597,195 | 10,671,497 | 14.00% |
| **TOTALS** | **35,674** | **779,508,821** | **90,062,708** | **3.00%** |

Using exchange rate of 0.00045 $ per UGX. Source: Ugandan Stock Exchange turnover statistics. 2. Calculated as Turnover / Capitalization from previous table.

**Privatizations through IPO**

British American Tobacco**:** represented the Second divestiture of Government Held Shares through a USE listing
Kenya Airways: was the second company to be cross listed on the USE, having first been privatized through the NSE in 1996.
KCB group : was initially owned by the government of Kenya, who has gradually reduced its ownership stake to 35%
Bank of Baroda: The government of Uganda Initially owned 49% of the company, ownership which has now been split among various investors through the listing.
DFCU: Partially when the Government of Uganda Divested its 30% stake in the company to the Board of DFCU who subsequently sought an IPO and listing on the USE. In 2004, the company was fully privatized after the sale of the 50% stake of DFCU in the Housing Finance company of Uganda was sold to the National Social Security Fund who then floated the shares on the USE> of the National Social Security Association was floated on the USE.
NVL: was privatized through a listing in the USE after having been 100% fully owned by the gov't of Uganda. In 2004, shares were split and sold to the public through the IPO.
Stanbic Bank: was fully privatized in 2007 when the government sold its 10% stake in the bank via the Banks IPO.
Uganda Clays Ltd: was fully privatized when it became the first company listed on the USE in 1996. The government divested aprox 375,000 ordinary shares.

**Cross border listings**
East African Breweries limited has an annual turnover of $325 Million. First cross border listing. Jubilee was the third company to become cross listed

**Overall Stock Market Performance:** Overall, Uganda has performed strongly relative to the Nairobi Exchange and the Nigeria exchange. Although all markets are down, the USE has suffered and been able to recover more quickly from external shocks.

**Figure 5:** Ugandan Stock performance relative to Nairobi and Nigeria

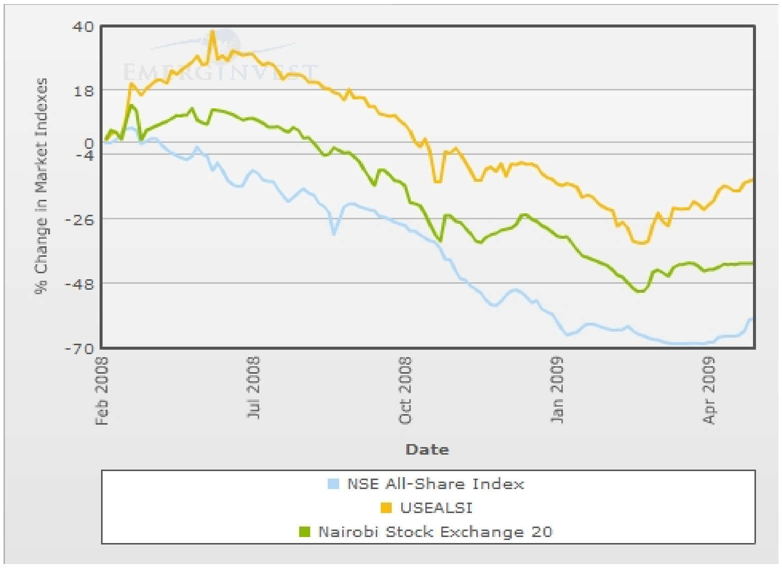



**Figure 6:** African Countries Stock market capitalization (share of Financials in %)
**As of End June 2008**

| | Share |
|---|---|
| Botswana | 76.8 |
| Côte d'Ivoire | 12.2 |
| Ghana[1] | 76.3 |
| Kenya | 34.3 |
| Mauritius | 44.7 |
| Nigeria | 64.8 |
| South Africa | 14.7 |
| Uganda | 85.4 |
| Zambia | 17.9 |

Source: Africa Market Focus Databank.
[1] Without Ashanti Gold.

**For Share Price and Volume Data for selected Companies, see Appendix B.**