# Policy Paper

# On

# STRENGTHENING THE ROLE OF UGANDA DEVELOPMENT BANK LIMITED IN THE SOCIO-ECONOMIC TRANSFORMATION OF THE COUNTRY

**By**

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**List of Abbreviations**

| | |
|---|---|
| ADB | African Development Bank |
| ACF | Agriculture Credit Facility |
| BADEA | Arab Bank of Economic Development in Africa |
| BDNES | Banco Nacional de Desenvolvimento Econômico e Social (Brazillian Development Bank) |
| BOU | Bank of Uganda |
| CBR | Central Bank Rate |
| CDB | China Development Bank |
| CNPC | China National Petroleum Corporation |
| DBE | Development Bank of Ethiopia |
| DBs | Development Banks |
| DBSA | Development Bank of South Africa |
| DFCU | Development Finance company of Uganda |
| EIB | European Investment Bank |
| EXIM | Export and Import |
| FDIs | Foreign Direct Investments |
| GDP | Gross Domestic Product |
| IDA | International Development Agency |
| IDB | International Development Bank |
| KACITA | Kampala City Traders Associations |
| NPL | Non-Performing Loan |
| NSSF | National Social Security Fund |
| NDP | National Development Plan |
| OPEC | Organisation of Petroleum Exporting Countries |
| PEC | Presidential Economic Council |
| PRC | People's Republic of China |
| RMB | Renmimbi |
| SADC | Southern African Development Community |
| SMEs | Small and Medium Enterprises |
| UDBL | Uganda Development Bank Limited |
| USD | United States Dollar |
| ZINARA | Zimbabwe National Road Administration |

## Executive Summary

Development Banks (DBs) are important instruments of Government through which socio economic transformation is promoted. Development banks providing relatively low cost capital compared to commercial banks and also wider range advisory services, capacity building programs to SME's ,large private corporations, other state owned enterprises whose financial needs are not best served by the private commercial banks. Playing multiple roles, all the literature reviewed confirms that Development Banks have helped promote, nurture, support and monitor a range of activities in many successful economies. However, despite the important roles DBs play in an economy, Uganda has not adequately harnessed their role as strategic intervention vehicle to promote its socio economic transformation due institutional weaknesses within the development bank itself and low capitalization.

This paper investigates the features of Uganda Development Bank Limited and compares them with other Development Banks with a view of getting best practices and coming up with Policy recommendations.

From the literature, there is compelling evidence that countries such as China, Brazil, Ethiopia and South Africa have relied heavily on State owned Development Banks to implement or support Government policies by providing financial resources to the respective policy areas. Hence, UDBL can be used to promote the socioeconomic transformation of Uganda. However, government has to do the following: (i)use UDBL as a policy bank; ensures UDBL realign its business with overall government objectives as envisaged in the National Development Plan and the Vision 2040; (ii) further restructure UDBL to fully perform the role of a development bank, (iii) capitalize UDBL to a tune of authorized share capital of shs 500 Billion (US $ 200 million) by directly allocating budget resources or providing guarantee to UDBL in accessing cheap and adequate finance for capitalization purposes; (iii) to achieve impact within constrained financial envelope, in the short to medium term, government should consider to task UDBL to serve the function of the other proposed specialized banks so that the funds meant for their re-establishment boosts UDBL capitalization levels- this will save Government from costs of re-establishment and yet ensure that target groups reached in a shorter time; (iv) encourage shareholding or sell of the shares in UDBL to institutions/investors as a way of raising more capital for the bank; (iii) exploring other domestic

sources of financing such as NSSF so as to reduce overreliance on funding from external sources; and (iv) finally as second tie priority , facilitate UDBL to set up and equip regional centres so as to avail credit facilities to private sector in the country side (financial widening) as it is done in China, Ethiopia, Brazil and South Africa.

## 1.0 Introduction

### 1.1 Background

Several economies over the world have achieved high growth rates and faster social economic transformation by undertaking a number of development projects whose success have been facilitated by a relatively lower cost of capital[1]. These economies have explored the advantages that development banks have over other forms of banking Institutions in relation to access to development capital and keeping the cost of capital low. Development banks have played and continue to play a crucial role in the rapid industrialisation of Asian and European Countries i.e. the growth of Japan and China as global economic powers is partly due to role of national development banks in providing unrestricted credit to finance large infrastructure projects[2] . Available literature confirms that Development banks in these countries aligned their business focus with the national economic strategy and allocated resources to break through bottlenecks in their countries' economic and social development. Some of these countries went ahead to create specialised banking institutions like construction banks, agriculture banks, to address sector specific needs that the other commercial banks would not pay keen attention too. This partly contributed to economic growth in these countries[3].

In Uganda, commercial banks hold about 80% of the total assets of the financial system while NSSF holds most of the remaining 20%. There is limited diversification of the financial system with limited growth in the non-financial sector. On the contrary, Development Banks such as Uganda Development Bank that are meant offer longer term credit facilities have limited lending operations relative to total credit extended by commercial banks (Bank of Uganda, 2014). Currently UDBL's total assets size is USHS 152 Billion against total assets of the Commercial Banks is USHS 17.2 trillion. The inability of UDBL to increase lending services is attributed to limited capitalisation.

[1] Countries like China and Brazil undertook infrastructure projects that were financed by low cost capital offered by development banks. Specific projects are in the section 3.2 for specific case reviews.

[2] Infrastructure Development and Economic Growth in China. Institute for Developing Economies. Discussion paper no. 261. Available at: http://www.ide.go.jp/English/Publish/Download/Dp/pdf/261.pdf

[3] It should be noted that there were other factors that contributed to the Economic growth of those countries and these include Human Capital Development, Exports, funds of funds for a country like South Korea and Brazil. A fund of funds sometimes spearheaded by Government and managed by investment Company and is used to invest in infrastructure funds, real estate funds, and SMEs fund.

## 1.2 Relevancy and Justification of the paper

Development Banks have stimulated economic transformation in some of the world biggest economies by providing capital requirements for investing in strategic projects. Uganda is at critical stage of development as it aspires to become a middle income country. In this regard, substance of high levels of economic growth rate is and equitable distribution of income is an imperative. Clearly, availability of relative cheaper medium and long-term financing is sufficient condition for achieving Uganda's long-term aspirations. In developing economies such as Uganda, Development banks are supposed to contribute to economic growth by availing long-term finance to strategic projects that will have a great spill over effect onto the economy.

Yet currently, the state of the Banking system in Uganda is not best suited to provide medium and long-term capital resources required by investors given that most of their deposit liabilities are of short term nature. Banks face low level of savings, and high costs in mobilising medium and long-term financial resources. As a consequence, it is now common practice for commercial banks who own 80% of the total assets financial sector in Uganda charge high lending rates[4] varying between 19-23% on average. In fact, Ugandan Banks have the second highest interest rate spreads in the East African region after Burundi (BOU, 2014). The shallow nature banking sector is culminating into with very high overhead costs[5] emphasizes the importance of reinforcing development banking as alternative sources of investment finance since these banks charge lower lending rates.[6] Notwithstanding the resolve by Bank of Uganda to reform the financial system in the medium and long term with a view to diversifying savings, loan and equity products as a means to supporting private sector led investment in viable projects. In the short run, given the transformation trajectory of the country particularly achieving a low level middle income country by 2017, providing

[4] High lending rates reflect the high spreads between bank deposits and lending rates.
[5] Bank overhead costs are the major causes of high interest rates in Uganda.

This is partly due to the shallow nature of the Banking system in Uganda where Banks do not enjoy economies of scale that would allow them to operate at reduced costs. In addition, poor institutional framework, with a slow and inefficient legal system, land titling, and corruption have retarded the growth of the Banking sector in the country.

[6] M3 consists of bank deposits including foreign currency deposits, plus currency in circulation with the public. The M3/GDP ratio is a standard measure of relative size of monetary and financial system in the country.

cheaper sources of financing to spur the growth of small and medium industrialisation is urgent and cannot wait for slow and iterative reform process of the financial sector. To this end we strongly argue that enhancing the role of Uganda Development Bank could be the fastest and most cost effective option to provide cheaper source of financing in the short-run. After all, the literature confirms the thesis that Development Banks provide credit facilities for medium and long-term projects at relatively lower rates and have played a significant role in financing enterprise development and value addition in the productive sectors in number of developed and developing economies.

### 1.3 Objectives of the Paper

This paper examines the challenges faced by UDBL in promoting socioeconomic transformation of the country.

The paper therefore seeks to:-

a) Identify persistent challenges faced by Uganda Development Bank Limited

b) Review Development banks and identify best practices

c) Propose policy recommendations geared towards strengthening of the role of UDBL

### 1.4 Methodology and scope of study

This paper is mainly based on literature review and the analysis is limited to country specific development banks and excludes regional development banks. The data used for analysis from 2006 to 2013.

### 1.5 Organization of the paper

Section 1 provides the introduction, problem statement, relevancy and justification of the Paper while

Section 2 of the paper discusses Development banking in Uganda and UDBL. Section 3 provides a review on development Banks, specific case studies and lessons learnt from the review. Finally, section 4 concludes the paper and presents the summary, policy recommendations and conclusions.

## 2.0 Development Banking in Uganda

Uganda has one Development Banks i.e. Uganda Development Bank limited (UDBL) and is a shareholder of the East Africa Development Bank (EADB). However, the role these banks can play in transforming the Ugandan economy is limited by their small lending operations relative to total credit provided by commercial banks (BOU, 2014). This raises three questions which are crucial to policy makers in Uganda: what role should development banks play in financing intervention contained in the national development plan? If DBs can play a significant role, then what are the challenges that hinder the performance of its only Development Bank and its contribution to socioeconomic transformation of Uganda? And how can these challenges be addressed to enhance the performance of UDBL?

To contextualise our discussion, the section below reviews the salient features of the financial sector and UDBL in particular.

### 2.1 Indicator of Financial Deepening in Uganda, 2002/03-2012/13

Uganda's financial system remains relatively undeveloped both in size and diversity (BOU, 2014). However, according to Table 1 the ratio of private sector credit to GDP increased from 6.8% to 14.1% between 2002/3 and 2012/13 but dominated by few players i.e. commercial banks. We argue that enhancing the role of UDBL as a lending institution could go long way in increasing and or complimenting available private sector lending sources and hence spur private sector investment growth and socioeconomic transformation of Uganda. The growth of the financial system over the last 10 years relative to the size of Uganda's economy is shown in Table 1 below.

**Table 1 Indicators of Financial Deepening in Uganda, 2002/3-2012/13**

| | 2002/3 | 2006/07 | 2012/13 |
|---|---|---|---|
| Broad money (M3[7]/GDP) (%) | 16.9 | 17.3 | 21.0 |
| Private Sector Credit (% of GDP) | 6.8 | 11.1 | 14.1 |

***Source: Bank of Uganda.***

[7]

## 2.2 Uganda Development Bank Limited

Uganda Development Bank Ltd was established under decree No. 23 of 1972 as Uganda Development Bank Limited (UDBL); with the mandate of financing development projects in various sectors of Uganda's economy. The bank was the designated development finance institution (''DFI'') in the country with 100% ownership by the government of Uganda. ***UDBL was mandated to finance projects that were technically feasible, commercially and economically viable and socially desirable. Hence UDBL was the financing arm of government.***

### 2.2.1 UDBL's collaboration with UDC

In the 1970s UDB and Uganda Development Corporation (UDC) worked in close collaboration as far as project identification and financing are concerned. UDC was the investment arm of the Government of Uganda while UDBL was the financing arm of the Government. Both organizations were used as strategic intervention vehicles by the Government. UDC would identify viable projects in line with the Government priorities and Government through the Ministry of finance would source for Lines of Credit/loans or grants that were channeled to UDBL to finance the identified viable and strategic projects. Such projects included: Nyanza Textile mill, Uganda Cement Industry, Uganda Livestock Industry, Chilling ton factory, Uganda Tea Corporation, Uganda Breweries, Co-operative Unions, Uganda Garment Industry, Uganda Bata Shoe Company. Currently UDBL is doing the financing and at the same time tries to identify projects without proper feasibility studies, exposing a high risk to the loans dispersed. As Government moves to revamp UDC, UDBL should be in a position to meet the financial needs of UDC to enable it handle larger strategic projects.

Today, UDBL provides short term, medium term, and long term capital to different sectors of the economy such as industry/manufacturing, and agriculture among others. However it can hardly finance strategic infrastructure projects like mini hydro dams due financial constraints and limited capacity to appraise large project.

### 2.2.2 Performance of Uganda Development Bank Limited

The performance of the bank suggests it has achieved minimal recovery in the last three (3) years. Net profit recorded increased from US$281,010 in 2010 to US$ 1,444,380 in 2011, slightly higher than the US$1,435,230 earned in 2012. The net worth[8] of the Bank was $35,503 thousand in 2010, $30,697 in 2011 and increased to $39,040 in 2012, a further indication that the Bank is on the recovery path (see Annex 3).

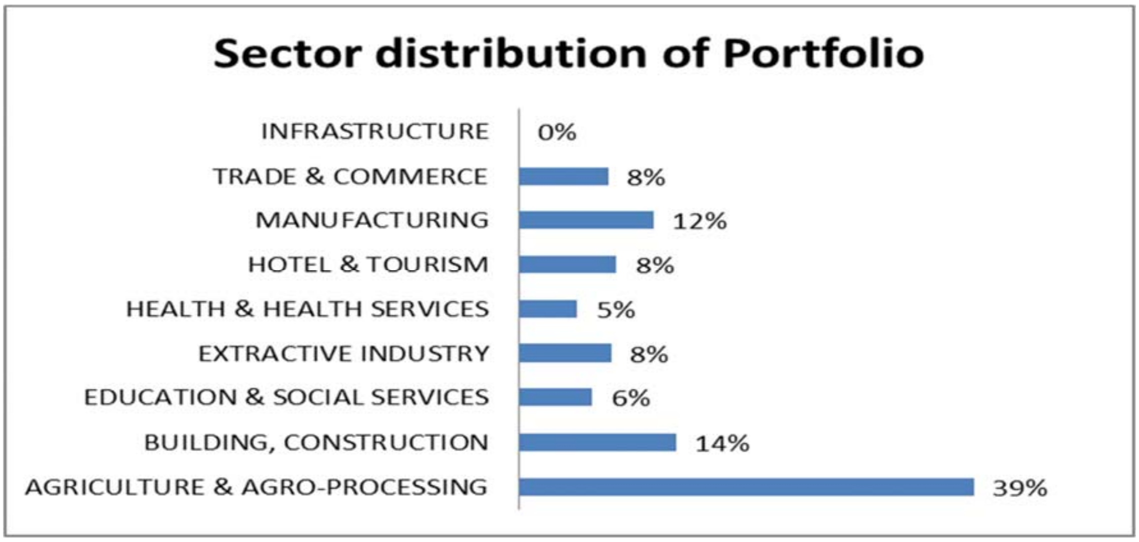
UDBL is a member of the Association of African Development Finance Institutions (AADFI).AADFI developed prudential standards that guide the operation of member Development Finance Institutions (DFI).It is a self-assessment system that each member DFIs has to undergo annually and has to be verified by an independent auditor. The results are then submitted to AADFI headquarter in Cote' de viore.In 2013 UDBL had a rating of 79.6%, which was quite a good average score.

Currently, the average interest rate for UDBL is 14.5% compared to 23% by commercial banks. This led the effective demand for loans to greatly supersede the funds available to UDBL for borrowing at prime lending rates of 12.5%, 13% and 14% for long, medium and short term borrowing respectively[9]. The total value of loan application for the period January 2013 to March 30th 2014 was Shs 76, 212,865,650 (USD 29,770,650) while the total project disbursements during the same period were Shs 49,011,418,600 (USD 19,145,085). This left a financing gap of Shs 27,201,447,050 (USD 10,625,565). The demand for loans is expected to increase further given the Bank's 5 year strategic plan which has a more aggressive marketing strategy. This implies that more financial resources would have to be mobilized to meet the increase in demand.

UDBL's portfolio[10] as of 2013 targeted sectors with high development impact though areas like Infrastructure which are crucial didn't register any portfolio. See figure 1 below

[8] Net worth is the difference between Total assets and Total Liabilities
[9]The effective demand for loans in UDBL is measured by the value of loans application.
[10] Portfolio refers to any collection of financial assets such as cash.

**Figure 1: Sector Distribution of UDBL's Portfolio**




***Source: UDBL 2014***

### 2.2.3 Sources of Capital for UDBL

UDB's current sources of capital include: Trust funds from Government on loan to UDBL at specified rates and repayment periods, Shareholders Equity contribution, direct borrowing from multinational financial institutions but guaranteed by Government of Uganda, Retained profits from the Bank's operations.

In 2013 the lines of credit included Kuwait loan (US $10.0 Million), Kuwait grant (US $10.0 Million), BADEA (US $4.5 Million), UDBL capital (US $ 40.68 Million) and BOU ACF (US $ 6.411). Some of these lines of credit are reimbursement credit lines where UDBL first disburses its own funds and then a reimbursement is made to it by the respective line of credit. Therefore, if UDBL lacks adequate funds it cannot draw funds from these lines e.g. Agricultural Credit Facility (ACF) from BOU, Kuwait Fund, BADEA etc. This therefore requires UDBL to have adequate funds in order to utilize these credit lines.

### 2.2.4 Project Financing

The regional distribution of financed projects is a concern as most are located in the central region (see Annex 5). This calls for government to establish UDBL regional centres (branches) and fully equip and capitalise them to meet the needs of businesses in those regions. To achieve the Vision, the government has targeted key sectors of the economy which include ICT, Tourism, Manufacturing, Oil and Gas, Minerals, Agriculture among others. It should be noted from the above table that UDBL did not finance any project in ICT, Oil and Gas, Mining, and Infrastructure development. This presents an opportunity for government and management of UDBL to harness the opportunities these priority sectors present for socioeconomic transformation of the country.

In reference to the performance of UDBL, source of capital, projects financed, profitability and total assets of UDBL, it clearly indicates a weak performance that requires strengthening to effectively contribute to the socio economic transformation of the country.

### 2.2.5 Why a weak performance and bad reputation

UDBL is struggling to rise up to its mandate and become the authority over the development finance needs in the country. It has experienced low levels of capitalization and minimal growth due to a history of the Bank's mismanagement. According to the special investigation into the management of the Bank's loan assets by the Auditor General (March 2012), a number of weaknesses which resulted in the poor quality of the loan book were highlighted and these included: Inadequate policies and procedures, lack of a strategic plan to guide operations of the Bank, lack of key committees like board credit committee, introducing new products without good feasibility study e.g. Trade Finance product all leading to loan losses, no separation of policies from procedures resulting in inconsistencies in application, shortcomings in application, appraisal, approval, monitoring and recovery of various loans due to institutional weaknesses and negligence by staff that managed various aspects of the loans. So UDBL put a number of interventions to address the situation.

### 2.2.6 Interventions taken to overcome the past challenges (weaknesses)

A number of interventions were put in place in order to overcome the challenges that the UDBL experienced and these included: a new board of Directors to observe corporate governance, a new 5 year strategic plan 2013-2017 with measures to address the challenges (see Annex 1).The strategic plan is being implemented and so far the Internal restructuring and reorganization was made (see Annex 7), Risk management professionals were recruited, performance management was put in place, reviewed the lending policies and procedures (see Annex 8), adopted of a new provisioning policy for all loans, introduced new innovative bank products and services, reduced its prime lending rates to 12.5,13 and 14 percent for long term medium and short term borrowing respectively and targeted sectors with high development impact. More Details on each of the interventions taken to overcome the challenges (see Annex 9).

### 2.2.7 Achievements so far

UDBL has experienced some achievements as a result of the interventions undertaken: the Board operations were strengthened, Bank's efficiency in delivering its core services is being realized, and governance has improved i.e. rendering accounts to the public for transparency purposes.

### 2.2.8 Persistent challenges of UDBL

In spite of UDBL's interventions there are challenges that have remained persistent and these include: limited capitalization, higher NPL as a percentage of the total loan book from 19% as at end June 2012 to 26% in 2014 due to UDBL's adoption to a new provisioning policy in Annex 2 for all its loans, lack of sufficient special guarantee funds11 and lingering reputation risk that has limited the bank from fully carrying out its roles.

It can be noted that the UDBL level of capitalization and asset base are quite low and this explains the low level of participation in the strategic sectors of the economy. Therefore it's worth exploring elsewhere with the purpose of learning better practices, knowing the DB roles and their characteristics that can be adopted to strengthen UDBL's role in the socioeconomic transformation on this country.

## 3.0 Experiences of other Development Banks

Several good practices of the Development Banks need to be explored in order to rejuvenate the activities or roles of UDBL. This section, will discuss the features and functions of DBs and case studies of Development Banks from elsewhere with a view of identifying opportunities or lessons for UDBL.

### 3.1 Features of Development Banks

A survey of 90 Development Banks conducted by Jose' de Luna and Carlos (2012) in 61 countries around the world revealed:

***a) Ownership***

[11] Guarantee funds can be in a government agency with a purpose encouraging lending to SMEs and other priority sectors. This fund is used for compensation to DBs when SME's or priority sectors fail to pay beyond reasonable doubt.

Development Banks were owned either wholly or partially by the State. However the ownership differed from one country to another depending on the percentage of shares the government owns within a Development Bank. In other wards the Governments were involved in administering and controlling of the business in the Development banks of the different countries due to the fact that they use them to provide a strategic direction of their countries' economies. Findings revealed that 74 percent of the Development Banks were totally owned by the state, 21 percent of them the state owned from 50-99 per cent and in only 5 per cent of the Development Banks states owned less than 50 per cent of the shares.

***b) Source of Capital***

Development Banks got funds to run their business operations from different sources that included getting budget allocation from Government, borrow from other financial institutions, raise capital from the domestic and international markets, and take savings and deposits from the public and using their own equity. The findings showed that 41 per cent of the Development Banks take deposits from the general public as their source, 89 per cent of them raised their capital by borrowing from other financial institutions or issue debts in local market, 40 per cent receive direct transfers from the government and 64 per cent of the DBs debts are guaranteed by government. This brings out the crucial role various governments need play in financing state owned development banks

***c) Sectors targeted by Development Banks (Beneficiaries)***

The survey also looked at the sectors targeted by Development Banks and findings revealed that the major sectors targeted were services (86%), industry/manufacturing (84%), Agribusiness (83%), construction (74%), energy and infrastructure (66%). Other areas targeted included Health (48%), Education (45%) and Mining (43%).

***d) Type of Clients***

The Development banks had different types of clients and these included other state owned enterprises, other financial institutions, individuals and households, large private corporations and the small medium Enterprises (SMEs). Majority of the clients for the Development Banks were SMEs (92%) followed by large corporations (60%). were the least type of client served by the DBs were other financial institutions (46%). It clearly shows that most Development Banks devote the largest share of their resources in financing SMEs and large private corporations.

The features of Development Banks having been looked at, it is also of great importance to know what the Developments Banks are meant to do in any economy if Government is to be in control of its desired destiny.

### 3.2 Role of Development Banks (DBs)

There are a number of roles that the development banks play in the economy of the country and these include:

***Mitigation of failures in credit markets:*** These failures are usually brought about by the costly access to finance for the long term projects. It is therefore important that state owned financial institutions play a role in the provision of cheaper credit for long- term project financing.

***Counter-cyclical stabilizing role:*** This role is all about stabilizing credit, for example, the Development Banks can scale up their lending operations when private/commercial Banks experience temporary difficulties in providing credit to private sector. This role however does not need to be directly defined in the mandate but it becomes an automatic intervention mechanism in the economy.

***Risk absorption role for the state during economic downturns:*** This role is about revamping collapsing industries and support given to other sectors in dire need for credit. In this case, Development banks are used as a crisis resolution vehicle. Crisis resolution tends to be of paramount importance for business continuity and employment creation.

***Maximizing social welfare***: As compared to commercial Banks, development banks tend to maximize social welfare more as opposed to profits maximization. In fact, in some cases the nonprofit criteria is used in appraising and selection of projects as long as the project has other associated social benefits. However it is important that even development banks are run on sound principles of banking good governance and some level of profitability.

***Promotion and development of small scale industries:*** With relatively low interest rates, and longer repayment periods, development banks are able to perform an important role in the promotion and development of the small and medium size enterprises. A good example is that of the Small Industries Development Bank established by the government of India, to grant equipment and direct project finance through medium and long term loan schemes.

***Development of the housing sector:*** Development banks provide finance for the development of the housing sector, especially through the mortgaging scheme. This may not explicitly be performed by the development banks themselves but it may be through the promotion of housing institutions, and through refinancing banks and other financial institutions that provide credit to the housing sector.

***Develop the large scale industries and other Infrastructure:*** Development banks promote the development of large-scale industries and Infrastructure (hydroelectric power projects, railway lines, roads etc.) This could be done by managing investment/fund vehicles on behalf of government.

***Promote of Agriculture and rural development:*** Specialized sectors such as agriculture, given its inherent risks, most times require specialized products which in many occasions can hardly be provided by commercial banks. Specialized development Banks are important to boast the development of such sectors.

***Enhance foreign trade:*** Development Banks can play a role of promoting foreign trade through interventions like export promotion which is key to earning foreign exchange and improving the balance of trade. A good example is the Export-Import Bank of India that was established by the government of India in 1982 to provide medium and long-term loans to exporters and importers from India. The bank has also gone ahead to provide overseas buyers with credit to buy Indian capital goods. Still in its oversight roles, it encourages banks abroad to provide finance to the buyers in their country to buy capital goods from India.

***Promote the development of entrepreneurs:*** Through this they facilitate entrepreneurship development by providing training to entrepreneurs in order to develop leadership and business management skills. India has succeeded in this regard.

***Promote the Growth of Capital Markets***; Development banks in developed Economies take the lead role of championing the growth of capital Markets. These DBs achieve this role by investing in equity shares and debentures of various companies listed in that particular economy. They can also achieve it by investing in mutual funds and other investment vehicles.

### 3.3 Case Studies of Development Banks

In countries where development Banks have successfully contributed to socioeconomic transformation (e.g. in China, and Brazil etc.)**,** the literature available suggest that there are adequately capitalized. Therefore, case studies would provide key lessons for government to revitalize UDBL in its mandate to contribute to socioeconomic development.

#### 3.3.1 Development Bank of South Africa (DBSA)

The Development Bank of Southern Africa (DBSA) is a Development Finance Institution wholly owned by the government of South Africa and focuses on large infrastructure projects within the public and private sector. The main objective of the bank is promotion of economic development and growth, human resource development, institutional capacity building, and the support of development projects in the region. The Bank plays a multiple role of financier, advisor, Partner, implementer and integrator to mobilize finance and expertise for development projects. Some of the projects financed by DBSA include: renewable energy, health, infrastructure and regional support. The total assets of the DBSA by 31st march 2011 were worth US $ 7.0 billion and the profit from operations was US $ 49 million. A corporate governance structure is in place that constitutes a board of directors in line with the statutory requirements. Detailed features of DBSA are summarized in Annex 6.

#### 3.3.2 The Development Bank of Ethiopia (DBE)

The Development Bank of Ethiopia (DBE) is a state owned development finance institution established in 1909. The current key mandate of the Bank is the provision of development credit to viable priority area projects along with technical support and advice by mobilizing resources from domestic and foreign sources**.** The Bank has five Regional Offices, 12 Branches and 20 Sub-branches throughout Ethiopia with its Head Office located in Addis Ababa. The target areas of the Bank's financing include: agro processing, export oriented and manufacturing projects. It also finances the input - supplying projects for the agro processing, export oriented and manufacturing projects. The total assets of DBE were worth 49.1 billion birr (US $ 2.5 billion) and the Profit for DBE in 2010/11 was 399.9 million birr (US $ 20.6 million) before tax that increased from 77.7 million birr (US $ 4.02 million) in 2009/10.And the interest rate for their priority sectors is 8.5%. It has a board of Directors for corporate governance. Detailed features of DBE are summarized in Annex 6.

### 3.3.3 The Brazilian Development Bank: (Banco Nacional de Desenvolvimento Econômico e Social - BNDES)

The Brazilian Development Bank is a federal public company working in association with the ministry of development industry and foreign trade in Brazil. BNDES is one of the largest development banks in the world with the objective of providing long-term financing for endeavours that contribute to the country's socio and Economic development. BNDES has financed large-scale industrial and infrastructure Developments since its establishment in June 1952.It has also played a significant role in supporting investments in agriculture, commerce and the service industry, as well as in small and medium-sized private businesses. BNDES's net worth amounted to R$61 billion (US $30.32 billion) and total assets were R$625 billion (US $310.6 billions) at the end of 2011, a 13.8 per cent increase on the previous year. The bank's capital adequacy is also regarded as high – for every R$100 (US $ 49.7 million) of finance it disburses and the bank holds 20.6 per cent equity. Corporate governance is observed and a number of corporate practises are observed. Detailed features of BNDES are summarized in Annex 6.

### 3.3.4 Chinese Development Bank (CDB)

It is a financial institution under the direct influence of the State Council and the only bank in China whose governor is a full minister. CDB is one of the three policy banks of the People's Republic of China (PRC) that is primarily responsible for rising funding for large infrastructure projects. It was established under the Policy Banks Law of 1994 that describes the bank as the engine that powers the government's economic development policies. CDB was established in the same year with export and import (EXIM) bank of China that is charge of industry, foreign trade, diplomacy, economy, export and imports of Goods and services. CDB has three primary business operations that include; infrastructure financing, grassroots financing and international transaction financing. Headquarters of CDB are based in Beijing with 32 domestic branches and offices abroad or overseas. The total profitability of China Development Bank was 45.6 Billion Renmimbi (6.9 Billion US dollars) in the year 2011 from 37.1 Billion Renmimbi (5.6 Billion US dollars) in 2010 while the total Assets were 6,252.3 billion Renmimbi (947.3 Billion US dollars) from 5,112.3

Billion Renmimbi (774.6 Billion US dollars) in 2010.The increment in the total assets and profits was approximately 10.2 percent. The interest rate charged on long term loans was 6%.It has a corporate Governance structure that constitutes a supervisory Board, international advisory council and the Internal Audit. Other detailed features of CDB are summarized in Annex 6.

### 3.4 Lessons from the Review of Development Banks

The review of Development Banks elsewhere suggest that there are lessons which can be turned into opportunities for policy makers in Uganda if the UDBL is to contribute to socioeconomic transformation and the achievement of Vision 2040. These lessons include:

i) Government participation in the ownership of development banks is critical factor for their success and sustenance given the role that goes beyond banking that they play.

ii) Development banks in successful economies supported more infrastructure projects and domestic industrialization processes particularly SMEs. Given the Vision 2040 clearly articulates infrastructure as a fundamental and industrialization as the one of the vehicles to achieve the middle income status, it is critical that Uganda Development Bank Limited should be supported with a view to providing credit facilities for long-term infrastructure projects and industrialization to realize Uganda Vision 2040.

iii) Development banks can also be innovatively used to implement government policies such as job creation as the case with the Development Bank of South Africa. The Bank is significantly involved in financing programs for job creation for the youth and revitalization of health and education programs.

iv) It is also clear that it is possible to create sector specific development financial institutions that respond to sector specific needs e.g. agriculture financing, power sector financing, and infrastructure development credit. The re-establishment of a cooperative bank is a welcomed idea so that Uganda government can have it besides UDBL to implement its policies. However each Bank should have clear policies to implement, adequate funding and effective corporate governance structures in place. In China, EXIM bank and CDB were established the same year (1994) each with specific policies to implement. CDB was established to implement large infrastructure projects while EXIM bank was chartered to implement state policies in industry, foreign trade, diplomacy, Economy by providing them with financial support. However on the other hand UDBL can serve the function of the cooperative bank if the funds to be used to for re-establishment are used to recapitalize UDBL. It will save Government the cost of re-establishment and the target group will be reached in a shorter time because UDBL is already established.

v) There are a wide range of opportunities that DBs used to raise capital for development purposes that can be adopted to boost UDBL's capitalisation and these included: Tax breaks and monies from workers' assistance to allow the bank to build its capital base for its lending activities, Direct budget allocations and Foreign currency lending, Issuance of bonds and investing in Equity shares of companies, Share holders' equity of more than 3 shareholders, Securing Loans from international financial institutions with and without Governments guarantee and Foreign currency lending.

vi) The review has demonstrated that there is need to deepen the services of UDBL by establishing and equipping regional specific branches in Uganda as the case with Development Banks in Brazil, China and Ethiopia. Setting up branches countrywide will take UDBL services nearer to prospective small, medium, and large entrepreneurs.

vii) For DBs to effectively carry out their roles they require to be adequately capitalized e.g. the countercyclical stabilization role can only be performed by UDBL if it has a financial muscle but with the current state where the commercial banks have 80% of the financial assets and more lending operations compared to those of UDBL. Such roles can hardly be performed and yet they are very crucial during a crisis in the economy. Table 2 shows that the level of capitalization of UDBL is very low relative to other BDs in economies that have achieved socioeconomic transformation.

**Table 2: Comparative analysis of Share Capital and Total assets of UDBL and other DBs**

| *No.* | *Name of Development Bank* | *Share capital USD Billions* | *Total Assets USD Billions* |
|---|---|---|---|
| 1 | China Development Bank | 67.4 | 947.3 |
| 2 | The Brazil Development Bank | 30.32 | 310.6 |
| 3 | The Development Bank of South Africa | 2.085 | 7.0 |
| 4 | Ethiopian Development Bank | 1.65 | 4.02 |
| 5 | Uganda Development Bank Ltd | 0.042 | 0.054 |

***Source: Annual reports of the respective development banks.***

## 4.0 Conclusion and Policy Recommendations

Based on the evidence adduced from the literature and the lesson the following are the conclusions and policy recommendations to PEC.

i) Government supports UDBL to fully capitalise the Bank with a view to achieving the authorized share capital of USHS 500 Billion (US $ 200 million) by directly allocating budget resources and / or providing guarantee to UDBL in accessing cheap and adequate finance for capitalisation purposes[12].Holding other factors constant it will enable UDBL to generate more funds to fulfil more its role as a Development Bank. The capitalisation could be done in a phased manner of about SHS 50 billion (US $ 20 million) per year.

ii) In addition , Government should encourage shareholding or selling of the shares in UDB to institutions/investors as a way of raising more capital for the bank to enable it finance big infrastructure projects that will facilitate the transformation to Uganda's desired levels of Development. However precautions need to be taken as it brings on private sector shareholders that the UDBL is more on the socio welfare of the Citizens of Uganda other than the profit motive.

iii) Domestic sources like NSSF resources can be explored as sources of finance for the bank other than relying too much on external financing and government budget

[12] The current financing and guarantee provided to UDBL funds is quite low (maximum USD 10M) in relation to the bank's capital requirements. The current paid up share capital is USHS 100bn (US $ 40 million) less than the authorized share capital. Exim bank is willing to lend UDBL at 7.5% which is expensive, but if the credit is guaranteed by gov't it would cost as low as 2.5%.

allocations. A case in point is China where the national council of social security is a shareholder of the China Development Bank. NSSF can contribute to a fund of funds that can be managed by UDBL on behalf of government and be able to invest in different funds according to the NDP priority areas like infrastructure fund.

iv) Continuous alignment of UDBL business with the national economic strategy as elaborated in the Uganda Vision 2040 and in the National Development Plans (NDP) if it is to be relevant to the socio-Economic transformation of the Uganda's Economy. This can be done by funding priority sectors of the economy as may be identified in the NDP from time to time.

v) Government needs to use UDBL as a policy bank or instrument that will implement some of its economic and social Policies if the Government is to have control of its desired destiny (Upper middle income country).For example to address unemployment among the youth (youth fund), boost implementation by private sector in NDP priority sectors like Agriculture (Agriculture fund), tourism. In reference to the DBSA the government of south Africa entrusted it with the implementation of the jobs fund worthy R 9 billion (USD 0.99 billion). This will broaden the capitalisation base of UDBL since the funds to the target areas/groups will be handled by it on behalf of Government.

vi) With regard to the linkage between UDBL and UDC, this critical particularly with regard to projects in the national priority areas that the private sector has no interest in. UDC should thus not be used to replace the private sector led enterprise development but rather complement it. However given the financial constraint to government and the current state of affairs of the two institutions, while its desirable for both of them to be reinforced concurrently, the plausible model is to start with one with a healthier bill of health that is UDBL then deal with UDC later.

vii) In the short to medium term, Government may consider UDBL to serve the function of the proposed cooperative bank so that the funds meant for re-establishment boost its capitalization levels. It will save costs of re-establishment and the target group will be reached in a shorter time because UDBL is already established.

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**Annex 1: UDBL Strategic Plan (2013-2017) – Goals and objectives**

**<u>Goals and Objectives</u>**

Four goals were identified and are the pillars under which the Bank's aspirations will be built. These are;

- Growing the shareholder value,
- Financing Key Growth Sectors of the economy,
- Rebrand for market growth, and
- Achieving efficiency in the Bank's operations.

Specific objectives and actions have been identified under each goal.

The objectives are: Growing the total assets of the Bank by an average of 36% over the 5 years from UGX 149bn in 2013 to UGX 1.2tn in 2017; Increasing the loan book by 60% in the first year of the plan and subsequently by 70% annually during the plan period, and finally increasing the Bank's profitability by 77% over the strategic plan period.

**Annex 2: Summary of both the old and the newly adopted loan provisioning guidelines**

| Classification | Old classification criteria | | New classification criteria | |
|---|---|---|---|---|
| | Arrears Age | Provision (%) | Arrears Age | Provision (%) |
| Normal | 0 - < 1 month | 0 | 0 - < 1 month | 0 |
| Watch | >1month - < 3months | 0 | >1month - < 3months | 0 |
| Sub-standard | 6months – 12months | 20 | 6months – 12months | 20 |
| Doubtful | 12months – 24months | 50 | 12months – 24months | 50 |
| Loss | >24months | 100 | >24months | 100 |

**Annex 3: Summary of the Bank's performance 2006-2012, in USD '000**

| **Years** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
|---|---|---|---|---|---|---|---|
| Interest income | 1,093.89 | 1,397.93 | 2,019.51 | 2,957.92 | 2,961.90 | 3,786.80 | 4645.25 |
| Interest expense | -38.05 | -187.85 | 0 | 0 | -15.465 | 0 | 20.90 |
| **Net interest income** | **1,055.84** | **1,207.74** | **2,019.51** | **2,957.92** | **2,946.43** | **3,786.80** | **4,645.25** |
| Total income | 2,064.27 | 2,741.12 | 7,282.30 | 3,774.96 | 4,901.51 | 6,338.86 | 4,757.95 |
| **Net profit/(Loss)** | **856.45** | **756.16** | **4,524.95** | **551.69** | **281.01** | **1,444.38** | **1,435.23** |
| Staff& Admin. Costs | 529.09 | 865.98 | 875.47 | 1,528.17 | 1,849.05 | 1,766.89 | 1,882.54 |
| Loan loss provisions (NPL) | 24.78 | 3,035.56 | 3,339.69 | 726.09 | 2,248.82 | 2,936.00 | 3,102.93 |
| **Total assets** | **21,691.22** | **23,578.20** | **33,350.35** | **38,433.63** | **40,099.45** | **43,097.21** | **52,937.59** |
| Liabilities | 5,787.11 | 10,518.51 | 13,085.42 | 16,253.43 | 22,546.06 | 12,294.21 | 13,897.27 |
| **Net worth** | **18,648.93** | **18,718.65** | **28,874.90** | **34,110.34** | **35,503.09** | **30,697.47** | **39,040.32** |
| Shareholder fund | 18.664.18 | 18,718.65 | 28,874.90 | 34,121.62 | 35,503.09 | 37,338.10 | 39,040.51 |

***Source: UDBL financial statements at a USD/UGX rate of 2,560.***

**Annex 5: Projects Financed by UDBL**

| Sector | Investment Activities | Funding (US$) |
|---|---|---|
| Manufacturing and Extractive projects | Recycling of polythene bags by quality plastics Uganda | 902,902 |
| | Alfasan Veterinary Pharmaceutical Factory in Namanve | 1,391,460 |
| | Ken Paper processing plant | 609,767 |
| | Building Majestic Granite tiles production | 564,516 |
| | Smile Plastics | 1.00 |
| Agricultural Projects | Z & K business Associates/Enterprises Ltd dealing in mixed farming in tea, Eucalyptus, dairy farm and banana Plantation. | 95,317 |
| | Farmers Centre Uganda in Lira dealing in grain (maize, sorghum) | 145,288 |
| | Balitwengomba Cotton Farmers Group (membership of 638 farmers in Luuka District) | 437,000,000 |
| | Kisoro potatoes Growers & Marketing Association ( membership of 300 farmers in Kisoro District) | 250,000,000 |
| | Kibinge Coffee Farmers Coop Society Ltd ( membership of 308 farmers in Bukomansimbi) | 313,900,000 |
| | **Agriculture Projects in the pipeline (being processed)** | |
| | Acwec Omio Coop Society dealing in primary agriculture of Simsim, Sunflower& Soya beans (membership of 130 farmers in Lira district.) | 497,500,000 |

| | | |
|---|---|---|
| | Angeta Cooperative dealing in primary agriculture of Simsim, Sunflower & Rice ( membership of 150 farmers in Alebtong district) | 500,000,000 |
| | Dwaniro Diary & Livestock farmers Cooperative Society Ltd (to benefit 100 farmers in Kiboga district) | 500,000,000 |
| | Kyazanga Cooperative (to benefit 178 farmers in Masaka district dealing in primary Agriculture – Bean seeds) | 200,000,000 |
| | Twezimbe Cooperative (to benefit 255 farmers in Kyankwanzi district dealing in primary Agriculture -Maize.) | 359,251,700 |
| | Dwaniro Diary & Livestock farmers Cooperative Society Ltd (to benefit 100 farmers in Kiboga district) | 400,000,000 |
| | Wakulima Rice Grower (to benefit 241 farmers in Jinja district). | 417,444,000 |
| | Alito Cooperative Society Ltd ( to benefit farmers dealing in primary Agriculture- Sunflower& Simsim growing in Kole District | 369,500,000 |
| | | |
| Tourism Projects | Serene Suites in Mutundwe | 975,762 |
| | JESA Dairy Farm | 988,000 |
| Social Sector Projects | Education and Health: Victorious Education Services | 365,073 |
| | Case Medical Centre | 1,364,954 |
| | Kampala Medical Chambers | 1,130,000 |
| Agro processing Projects | Maina Speedy Potatoes Processing Plant | 210,261 |
| | Mutuma Commercial Agencies – Cotton ginning factory | 269,688 |

***Source: UDBL, 2014.***

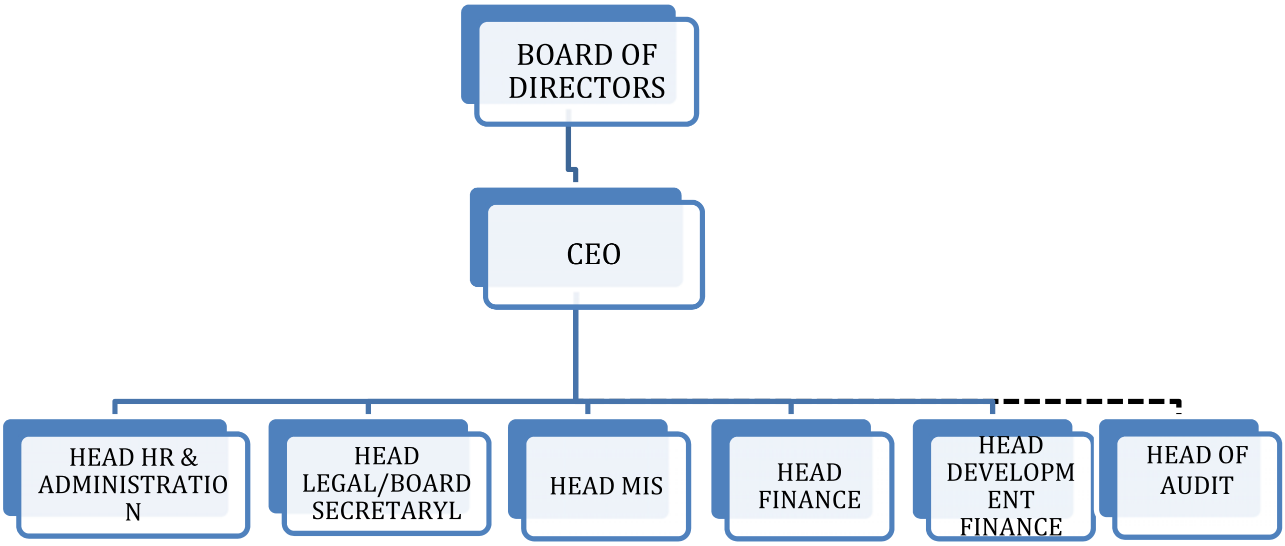
**Annex 6: Case studies on Development Banks**

| Development Bank | Source of Capital and Projects Financed | Profitability and Total Assets |
|---|---|---|
| **The Development Bank of Southern Africa (DBSA)** | The DBSA raises its capital from the domestic and international capital markets. Also through getting loans from the bilateral and multilateral institutions plus the internally generated resources.<br>**Projects Financed:**<br>***Renewable Energy Generation Programme***<br>The DBSA, the National Treasury, and the Department of Energy undertook to work towards creating an enabling environment for independent power producers. DBSA is supporting 12 power projects representing a potential participation value of R9.6 billion (US $1.06 billion).<br>**Job Fund:**<br>The DBSA was entrusted with the implementation of a Jobs Fund worthy R9 billion (US $0.99 billion). This fund is aimed at providing stimulus to and enhancement of employment opportunities in South Africa.<br>***Health Revitalisation Program***<br>The DBSA gave support to the national Department of Health with the aim of accelerating the delivery of important health projects and initiatives e.g. Chris Hani Baragwaneth Hospital, Dr George Mukhari Hospital, Limpopo Academic Hospital, King Edward III Hospital, Nelson Mandela Academic Hospital and Limpopo Nursing College<br>***Accelerated School Infrastructure Development Programme***<br>In line with the Department of Basic Education's call to improve school infrastructure, the DBSA assisted the Department by providing project planning, preparation and management for the construction of 49 schools in the Eastern Cape region to the value of R672 million (US $ 74.27 million).<br>***Support to the Region (South of Africa)***<br>The DBSA has continued to provide strong development finance support outside South Africa in 2011 with commitments of R2.9 billion (US $ 0.32 billion) against a target of R3 billion (US $ 0.33 billion), total approval of R3.8 billion (US $ 0.42 billion) and disbursements of R3.2 billion (US $ 0.33 billion). Key strategic interventions included the following:<br>The DBSA continued to demonstrate its commitment to the reconstruction of Zimbabwe by disbursing US$54 million on the US$206 million loan facility to the Zimbabwe National Road Administration (ZINARA).<br>An amount of R542 million (US $ 59.9 million) was disbursed as part of the line of credit agreement during the year.<br>The Bank also disbursed R1.3 billion (US $ 0.14 billion) to the National Road Fund Agency in Zambia in 2011. | The total assets of the DBSA by 31st march 2011 were worth US $ 7.0 billion and the profit from operations was US $ 49 million. |

| | | |
|---|---|---|
| **The Development Bank of Ethiopia** | - The DBE is wholly owned by government so the initial start - up capital was from government through the mobilisation from domestic sources like taxes. However there are other ways that the Development Bank of Ethiopia raises its capital and these include: The issuing of relatively long term bonds, getting or securing of loans from other international institutions such as the African Development Bank (AFDB), the World Bank and the IMF to finance some of the big government infrastructure projects,<br>***Projects Financed***<br>According to the annual report of DBE for the financial year 2006/07 a number of projects were financed and these included:<br>- Textile mills like Bahidrdar, Kombolcha, Awassa, Abaminch, Almeda.<br>- Ethio-Japan nylon textiles and Kibre garment factory.<br>- Factories like Burayu packaging, Mojo Edible oil & solvent extraction, Melkasa Aluminium sulphate factory, Gumaro tea plantation and processing factory and Adamitulu pesticide formulation factory.<br>- Breweries like Harar, Bedde and Dashen Breweries.<br>- The electricity highway project worthy US $ 1.26 billion between Kenya and Ethiopia was partially financed through the Ethiopian Development Bank by the African Development Bank when it approved US$ 348 million in September 2012 for this project. | The total assets of DBE were worth 49.1 billion birr (US $ 2.5 billion) and the Profit for DBE in 2010/11 was 399.9 million irr (US $ 20.6 million) before tax that increased from 77.7 million birr (US $ 4.02 million) in 2009/10.And the interest rate for their priority sectors is 8.5%. |
| The Brazilian Development Bank: (Banco Nacional de Desenvolvimento Econômico e Social - BNDES) | ***Sources of Funds***<br>-The Brazilian Development Bank was initially set up by a temporary extra income tax levy on Brazilian workers and then currently the funds are got from different sources that include: debt issuing, Government's guarantee on the international capital markets and its domestic market.<br>-The bank also receives direct and indirect funds from the government especially through tax breaks and monies from the workers' assistance fund (Fundo de Amparoao Trabalhador).<br>-According to Dolphin and Nash (2012),the source of finance in 2009 included 47.7 per cent return on operations,42.5 per cent Government funding,7.3 per cent from asset monetization ,2.1 per cent from foreign funding and 0.5% from others.<br>***Projects Financed***<br>***1)*** **The Belo Monte Belo Monte Dam on the Xingu River**<br>This is currently the largest dam project under consideration in the world. The dam would be the World's third largest expected to generate approximately 4,500 MW. The Brazilian Development Bank committed itself to fund 80 per cent of the dam with a 30-year interest period at 4%, way below the cost of capital line of credit.<br>***2) The Port Infrastructure Development Project:***<br>This includes a port, road, railway, port-related areas and environmental research interventions in the Port Industrial Complex "Governador Eraldo Gueiros" (Suape). The Bank approved R$ 920.3 million (US $ 457.39 million) to finance the project that would have been run directly by the Pernambuco state government or through the Suape Company**.**<br>***3) The expansion, modernization and exploration of the Guarulhos International Airport, in the state of Sao Paulo.*** | BNDES's net worth amounted to R$61 billion (US $30.32 billion) and total assets were R$625 billion (US $310.6 billions) at the end of 2011, a 13.8 per cent increase on the previous year. The bank's capital adequacy is also regarded as high – for every R$100 (US $ 49.7 million) of finance it disburses and the bank holds 20.6 per cent equity. This compares to 11 per cent equity required by the Brazilian Central Bank and 10.5 per cent required under the Basel III rules (4.5 per cent of common equity, 6 per cent tier 1 capital). In |

| | | |
|---|---|---|
| | The Bank approved a bridge loan of R$ 1.2 billion (US $ 0.60 billion) in 2012 to develop the Project. This was the first loan within the scope of the federal government's concession program in the airport sector<br>**4)** ***The collector transmission line in Porto Velho (state of Rondonia),***<br>This is approximately 2,300 km long, and integrates the Rio Madeira transmission system. The bank approved R$ 1.05 billion (US $ 0.52 billion) to finance the project (Norte Brasil Transmissora de Energia) and it would be operational in the first half of 2013.<br>5***)*** ***The implementation of the North Logistics Capacity-Building project.***<br>This was created to implement a 30.4% expansion of the transport capacity and shipment of iron ore from Vale's Logistics System. The bank approved R$ 3.882 billion (US $ 1.93 billion) in financing this project. | December 2011, 98.7 per cent of BNDES's loan transactions were classified as low risk (between AA-C rating) (BNDES, 2012 |
| **Chinese Development Bank (CDB)** | ***Sources of Capital***<br>The CDB initially got start-up capital from the government when it took the initiative of forming this bank with the intention of supporting the country's Economic Development Strategy**.** The CDB also raises capital by using other means that include:<br>- Issuing of long-term (sometimes up to 30 years) bonds to institutional investors on China's interbank bond market and foreign markets. It is the second-biggest bond issuer in China and issues bonds in both renminbi and foreign currencies.<br>- The issuance of Debts which are fully guaranteed by the central government of the People's Republic of China is another way the CDB raises its capital.<br>- Through the foreign currency lending, the Chinese development bank has been able to raise its capital. CDB has been recognised as the leading bank in China in foreign currency lending after it overtook Bank of China.<br>***Projects Financed***<br>***Putblic Infrastructure Projects***<br>According to CDB's 2011 report, Public infrastructure projects are the mostly financed projects for the Bank and these included:<br>- Damaoqi wind farm power project that is estimated at the cost of RMB 1.225 Billion (185.6 Million USD) and CDB committed RMB 947 million (143.4 Million USD).<br>- Under road construction, CDB committed RMB 290.6 Billion (44 Billion USD) to construct 6,460 km of highways and repair 6,530 km of road. Xiamen road / railway bridge that cost at RMB 2.6 Billion (393.9 Million USD), CDB committed RMB 700 Million (106 Million USD).<br>***Financing of natural resource and infrastructure projects outside Chinese territory.***<br>- These include the Ethiopian National Telecoms Network whose total investment was USD 2.096 Billion of which CDB committed USD 1.1 Billion.<br>- China Development Bank provided a five year loan worthy USD 30 billion in 2009 to China National Petroleum Corporation (CNPC) to finance the company's expansion overseas. | The total profitability of China Development Bank was 45.6 Billion Renmimbi (6.9 Billion US dollars) in the year 2011 from 37.1 Billion Renmimbi (5.6 Billion US dollars) in 2010 while the total Assets were 6,252.3 billion Renminbi (947.3 Billion US dollars) from 5,112.3 Billion Renmimbi (774.6 Billion US dollars) in 2010.The increment in the total assets and profits was approximately 10.2 per cent. |

**Annex 7: Organizational Chart**




**The Bank has six departments as presented above each performing various functions. The total current number of staff is currently at 49.**

**Annex 8: Compendium of UDBL Policies**

1. **Credit Risk Management Policy**
2. **Risk Management**
   - 2.1. Compliance Risk Management Policy
   - 2.2. Operational Risk Management Policy
   - 2.3. Conflict of Interest Policy
   - 2.4. Whistle Blowing Policy
   - 2.5. Money Laundering Control Policy
3. **Manangement Information Systems**
   - 3.1. Internet Policy
   - 3.2. Email Management Policy
   - 3.3. Telephone Policy
   - 3.4. Service Desk Incident Management Policy
   - 3.5. Change Management Policy
   - 3.6. IT Procurement Policy
   - 3.7. Applications Policy
   - 3.8. Network Administration Policy
   - 3.9. Network Monitoring & Vulnerability Scanning Policy
   - 3.10. Information Security Policy
   - 3.11. Anti-Virus Policy
   - 3.12. Biometric Policy
   - 3.13. Video Surveillance and Biometric Systems Policy
   - 3.14. Device Management Policy
   - 3.15. Hardware Sanitisation and Disposal Policy
   - 3.16. Server Room Policy
   - 3.17. Corporate Website Policy
   - 3.18. Laws and standards to be observed
4. **Human Resources**
   - 4.1. Recruitment Policy
   - 4.2. Employment of Relatives
   - 4.3. Performance Management Policy
   - 4.4. Training & Development Policy
   - 4.5. Remuneration Policy
   - 4.6. Bonus Payments Policy
   - 4.7. Honorarium Policy
   - 4.8. Provident Fund Policy
   - 4.9. Leave Management Policy
   - 4.10. Discipline Management Policy
   - 4.11. Harassment Policy
   - 4.12. Grievances Policy
   - 4.13. Code of Conduct Policy
   - 4.14. Dress Code Policy
   - 4.15. Club Membership Policy
   - 4.16. Entertainment Policy
   - 4.17. Medical Insurance Policy
   - 4.18. Health & Safety Policy
   - 4.19. Funeral Expenses Policy
   - 4.20. Travel Policy
   - 4.21. Mileage Policy
   - 4.22. Delegation of Authority
   - 4.23. Gifts Policy
   - 4.24. Exit Management Policy
   - 4.25. Severance Policy
   - 4.26. Staff Loan Policy

**Annex 9: Interventions taken to overcome the challenges**

| Interventions | Comments |
|---|---|
| **A New Board was put in place** | - After the previous board served for 10 years, the Minister of Finance appointed a new Board in May 2012 for a term of 3 years. The members have varying experiences from both the private sector as well as public sector.<br>- A board charter was approved and the board has put in place three subcommittees i.e. the Board Credit Risk Management Committee, the Board Audit and Risk Management Committee and the Board HR, Planning and General Purpose Committee.<br>- Each of the committees is chaired by a member with appropriate skills in the relevant field and each committee has terms of reference. And UDBL has experienced improved Governance |
| **Internal restructuring of the Bank** | - The internal restructuring and reorganization was undertaken again in 2013 to ensure that the structure that existed in the Bank supported the achievement of the strategies that had been identified in the Bank's strategic plan.<br>- A staff rationalization exercise took place throughout the year to ensure that the staff with the needed skills and competencies as well as right attitudes and culture occupied key positions in the Bank<br>- Key departments especially development finance and finance departments were restructured to ensure segregation of duties and process efficiencies among others |
| **Bank's strategy defined and undergoing implementation** | - A new strategic plan for the Bank was put in place in 2013 and it covers the period 2013 to 2017. In the Plan, the new board and management realized the need to position the Bank to be the leading provider of development finance in the country.<br>- The Bank has tasked itself to become the authority in Development financing in the country. Reference can be made in Annex 1 for the summary of the UDBL Strategic Plan.<br>- In 2013, the Board and management undertook a review of the first year performance of the strategic plan and further developed a corporate score card that will guide management in implementing the 5 year strategic plan (2013-2017).<br>- The corporate scorecard is based on the Balanced Score Card and various financial; customer, process and people deliverables together with performance measures identified. The score card is provided in annex 2. |
| **Risk Management** | - The Bank has implemented an enterprise wide risk management framework and in 2013 recruited experienced risk professionals to run its risk management department.<br>- A risk register is maintained and Key Risk Indicators (KRIs) have been identified and set by both the Board and Management.<br>- Monitoring of these KRIs is done on a monthly basis and this forms the basis for monthly risk reporting. At management level, a risk management committee is in place with specific terms of reference and meets every month to review risk management reports<br>- The committee reports quarterly to the Board Audit and Risk Committee. The robustness of our risk management across the Bank ensures that risks are proactively identified, monitored and managed to prevent associated losses |
| **Performance Management** | - Using the corporate scorecard, annual scorecards / business plans are derived and agreed upon by the board and management and an annual budget is aligned to the business plan.<br>- The Bank uses the Balanced Scorecard model to implement its strategy. From the annual business plan, departmental and individual scorecards are derived and every staff in the institution has specific key result areas upon which they are measured at the end of each period.<br>- The Bank is introducing a performance based reward system to recognise performing staff. |

| | |
|---|---|
| **Adopted the Association of African Development Finance Institutions (AADFI) and BOU guidelines** | - UDBL is an active member of the Association of African Development Finance Institutions (AADFI).<br>- AADFI together with the input of the World Bank, African Development Bank and other multinational DFIs came up with Prudential Standards and guidelines that set various benchmarks in areas of governance, capital management, liquidity, management and leadership, risk management (credit, liquidity, and market risk), financial performance among others.<br>- The Bank is to rate its performance against these benchmarks on an annual basis with a target of ensuring compliance with all the set benchmarks.<br>- Considering that most of DFIs are not regulated, the aim is to ensure good governance, growth and sustainability of DFIs considering the role that they should be playing in the development of their economies. By participation in the AADFI ratings, UDBL is making an effort to ensure that it becomes a strong and sustainable institution.<br>- AADFI guidelines encourage DFIs to benchmark most standards with their local Financial Institution Act (FIA). As a result, UDBL has adopted the local FIA regulations for classification of its performing and non-performing loans assets. |
| **Lending policies and procedures** | - The Bank's lending policy has been reviewed in order to direct the operations of the Bank to the achievement of its mandate i.e. providing affordable capital for development projects in key growth sectors.<br>- The Bank's focus is in financing projects and interventions to support Agriculture production, agro processing and value addition, manufacturing, education, health tourism, extractive industry and infrastructure among others.<br>- Previously, a significant portion of the Bank's portfolio was concentrated in non-productive sectors such as building and construction, housing and real estate among others. However, due to the renewed focus on productive sectors, there are deliberate efforts to grow the Bank's portfolio in more productive sectors.<br>- The Credit process/lending process were reviewed to ensure seamless service delivery. Segregation of duties was introduced between business and credit was established and a loan administration as well as work out unit put in place with dedicated staff in each of the units. |
| **Portfolio Management** | - The Credit management committee is responsible for management oversight of credit and the committee reviews on a monthly basis credit portfolio reports. Notable issues contained in the Credit portfolio report include:, performance of credit products, concentration limits and risks, watch listed accounts, non-performing accounts, compliance with terms and conditions of approvals, arrears, collections, period activities such as disbursements, aging of pipeline among others.<br>- This ensures that business objectives, process matters as well as risk management are appropriately managed to ensure sustainability of the Bank's business. |
| **Non-Performing Loans (NPL) and provisioning policy** | - The Bank adopted a new provisioning policy for all its loans, in line with the Central Bank's prudential standard which is more stringent as opposed to the earlier loan classification criteria.<br>- This has resulted into a much higher NPL as a percentage of the total loan book, from 19% as at end June 2012 to the current 33%. In a move to upscale loan recovery and collection effort, UDBL has put in place a recovery and collection unit with streamlined and well documented associated procedures. |
| **Interest rates** | - The Bank recognizes its role in providing affordable cost of investment capital for private sector development.<br>- As a result, the Bank recently reviewed its pricing strategy considering sources of its capital and reduced its prime lending interest rates to 12.5%, 13% and 14% for long-term, medium and short term borrowing.<br>- The interest rate on the Agriculture credit facility (ACF) is still at 10% as per the guidelines by BOU unlike other commercial banks that are charging 12% and above on the ACF in order to meet the Administration costs. |

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| **Products and services offered by UDBL** | - The Bank is continuously coming up with innovative products in order to utilize the funding lines that are available as some of the lines have specific conditions to be utilized.<br>- Example is the value chain financing model which is a group lending model developed to promote and provide financing for organized farmer groups with an off taker for their crops for value addition or agro processing.<br>- This was designed to utilize an existing grant from Kuwait Fund that was meant for small farmers or farmer groups to improve food security in the country. With the expected funding from Islamic Development Bank (IDB), new products on Islamic banking and leasing will be introduced. |
| **Target markets and groups** | - The Bank policy specifically targets sectors with high development impact such as Agriculture production where majority of Ugandans are employed, Agro-processing, Export sector, Manufacturing, Science and Technology projects that are profit making and Small & Medium Size Enterprises operating in strategic sectors as defined by the National Development Plan (See figure 6).<br>- Farmers groups spread across different segments within agricultural sector such as crop farming, livestock farming, and use of modern farming methods and irrigation facilities that enhances productivity per hectares are areas of priority<br>- Value addition activities aimed at improving earnings from agriculture and promoting employment in the country are key areas of focus by the Bank. |

***Source: UDBL Annual Reports and Staff Interviews.***