**KEY HIGHLIGHTS FROM THE 11TH NATIONAL DEVELOPMENT POLICY FORUM (NDPF) ORGANIZED BY NATIONAL PLANNING AUTHORITY**

**DATE: 26TH MAY 2022**

**VENUE: KAMPALA SERENA HOTEL, VICTORIA HALL**

1. **Introduction**

On Thursday 26th May, 2022, the National Planning Authority (NPA) organized the 11th National Development Policy Forum under theme **“*Reducing the Cost of Credit in Uganda: The Case for Public Investment in Banking”.*** The purpose of this forum was to provide an opportunity to the different stakeholders to make an input to the recommendations suggested by NPA in the thematic paper of reducing the cost of credit in Uganda before such recommendations can be communicated to Cabinet for consideration.

The forum was graced by a number of distinguished guests. Key among those include; The Hon. Prime Minister of Uganda, Rt. Hon. Robinah Nabbanja who was represented by Hon. Chris Baryomunsi, the Minister for ICT and National Guidance; Hon. Amos Lugoloobi, Minister of State of Planning, Dr Michael Atingi-Ego, the Deputy Governor of Bank of Uganda; Mr. Ramathan Ggoobi, the Permanent Secretary/Secretary to the Treasury Ministry of Finance, Planning and Economic Development (MoFPED); Ms. Elsie G. Attafuah, United Nations Development Programme’s (UNDP) Resident Representative for Uganda; Members of Parliament, Mr. Wilbrod Humphreys Owor, the Executive Director of Uganda Bankers Association; Ms. Olive Kigongo, the Chief Executive Officer of the Uganda National Chamber of Commerce and Industry and Mr. William Byandusa, Director of Master Wood Investments Ltd and students of Economics, Kira Secondary School among others.

1. **Key findings of the thematic paper**
2. Despite previous Government interventions, the majority of Ugandans are unable to borrow from the formal banking sector primarily due to the prevalent high cost of credit in the country.
3. The high cost of credit continues to limit the growth of target NDP III sectors such as agriculture, tourism, infrastructure, oil and gas and mining.
4. Researchers have attributed the high lending interest rates to high operational costs, high default rates, profit maximization, bank policies, credit market inefficiencies, government borrowing, and undercapitalized public banks, among others.
5. If properly implemented, policy interventions targeting the root causes of the high lending interest rates will be more effective at ultimately reducing the high cost of borrowing and increasing access to credit in the country.
6. The paper discusses three pragmatic policy measures for mitigating the underlying root causes of the high lending interest rates to ultimately reduce the cost of borrowing in Uganda and these include;
* Government of Uganda should invest Shs. 2.5 Trillion in the Public Banking Institutions to achieve a market share of 20% in 7 years. This will strengthen the public banks to become market leaders and influence the lending culture and pricing in the banking industry.
* Review existing banking policies to ascertain the impact on financial inclusion, the cost of credit, and achieving national development priorities. Examples include policies like tier restrictions, Non-Performing Loans (NPL) targets, key facts documents (KFD), and other operational bank policies.
* Enforce fair lending practices by mandating all banks to lend to an agreed proportion of NDP III priority sectors, vulnerable segments like the low-income, women, the youth, rural residents etc., and national key performance measures and systems should be designed for tracking compliance.
* Reduce Government borrowing from the credit markets. This will be crucial for the effective implementation and attaining positive net benefits from the public investment in banking initiative.
1. **Summary of salient aspects discussed in the Forum**
2. The four major binding constraints to doing business in Uganda which must be addressed are: cost of capital, high cost of power which is the engine of economic transformation, high cost of transport & logistics and low levels of adoption of efficient technology. The Cabinet of Uganda has directed that these constraints should be addressed in the medium term. The NPA was commended for commissioning this study whose recommendations will address the first constraint i.e. the high cost of capital.
3. The Government is aware about the constrained private sector’s access to affordable credit by heavy borrowing by Government (borrowed up to Shs6.8trn in FY2020/2021) from the same commercial banks which find it safer lending to Government of Uganda than private businesses many of which are always struggling. This, in effect, crowds out the private sector making credit more costly.
4. The Government remains very keen on maintaining debt sustainability and as such will continue to prioritize concessional borrowing. In addition, the following measures will continue to be pursued to slow down debt accumulation and promote its sustainability.
* Enhance efforts towards export promotion and import substitution to increase foreign currency inflows and reduce the outflows.
* Sequencing projects, with priority given to those generating a bigger growth dividend. In addition, Government will also continue to enhance project execution by fully implementing the reforms under the Public Investment Management Strategy (PIMS), for timely realization of their benefits and subsequently their impact on the economy
* The Government of Uganda has put in place measures to reduce rates of interest through interventions like capitalization of Uganda Development Banks, provision of medium- and long-term financing to a number of projects and programmes at more favorable terms than are usually available under conventional loans like the Agricultural Credit Facility, The Presidential Initiative on Wealth and Job creation (Emyooga), Small Business Recovery Funds and Parish Development Model among others.
1. Strong policies especially in the banking industry are vital in promoting efficiency of the sector and these will allow banks to build their capital that can provide a buffer to absorb any losses and also overall position. There is need to undertake research and a comprehensive review of banking sector regulations in a liberalized economy, provide recommendations and a proposed framework to implement the changes.
2. Given that the fiscal space in Uganda has reduced significantly due to increased indebtedness, NPA should advise Government on debt sustainability and the possibility of Government accessing green financing facilities including carbon taxes, environmental levies, green bonds, and green loans among others. Many African countries including Kenya, Rwanda are already accessing such financing.
3. The Government should attract strategic investors with good business models who will contribute to the proposed total investment amount of Ugx. 2.5 trillion in public banks. This form of financing under the Public-Private Partnership will contribute significantly to the financing of prioritized interventions, especially in the infrastructure, health and education sectors where cost recovery is potentially high through self-financing of the projects.
4. Given that the Government is one of the largest purchasers of works and services in the economy, an increase in the domestic arrears is likely to lead to a rise in the cost of credit by increasing the exposure of banks to non-performing loans from the impacted suppliers' inability to meet their debt obligations.
5. For the assets (worth over Ugx.7trn) locked up in commercial disputes in the Commercial Division of the High Court mostly between banks and defaulting borrowers, the MoFPED and Ministry of Justice and Constitutional Affairs are working towards increasing the number of judges to expedite the hearing and disposal of such commercial disputes. This should be accompanied by continuous monitoring of reduced amount of money locked in court cases.
6. High operational or overhead costs – for staff, property, IT, infrastructure etc. – are a major contributor to high interest rates. This is in part due to duplication of infrastructure, and there would be merit in exploring ways in which infrastructure can be shared, to benefit from economies of scale. There should also be a transition away from branch-based banking to electronic platforms. For example; following the issuance of Agency banking regulations by Bank of Uganda, there is compelling evidence that Agency Banking is changing the landscape for financial inclusion by delivering financial services to the under-served and un-banked population in the country.
7. Agency banking should be broadened to include Tier 3: Microfinance Deposit Taking Institutions (MDIs) who are currently restricted from recruiting bank agents. This will grant banks access to an untapped market potential especially in the rural communities.
8. There is need to strengthen efforts in mobilizing financing for investments that are long-term in nature. The current maturity structure of the assets and liabilities for financial institutions in Uganda which focuses on liabilities at the short end of the market cannot be able to sufficiently provide adequate development financing that is long term in nature.
9. Instead of amalgamating the three banks into one big bank, they should be re-capitalized each continuing to exist autonomously while retaining their respective niche areas. This should be coupled by improved corporate governance by setting relevant performance measures that encourage financial inclusion and enforce accountability at the public banks.
10. The proposal then to increase the government of Uganda funding public banks is most welcome especially at such a time when there are emerging risks like climate change, cybersecurity threats
11. Financial knowledge, attitudes and behavior are key aspects that influence people’s choices of financial products, services, and life plans. The level of financial knowledge and skills influence people’s attitudes and behaviors which is key to Uganda’s Financial inclusion goals and strategy.
12. The lending and credit risk models are not fit for the economy as they exclude the majority. In essence, Ugandan banks apply prime lending models to manage credit risk in a predominantly subprime economy. Banks lend mostly to the low-risk high-income prime borrowers with collateral yet about 80% of Ugandans lack collateral and are high-risk, low-income subprime borrowers.
13. There is need to increase savings mobilization by increasing new to bank customers. This can be done by; encouraging saving in small amounts, mandatory active savings accounts for all borrowers, increase the marketing budgets at the public banks and increasing accessibility through optimized digital banking, branch networks and locations.
14. There is need for public banks to adopt the mode of operation of money lenders in a more controlled environment with checks and balances. Despite extremely high lending rates, loans provided by money lenders are accessible by the majority in the country. There are no collateral requirements, they lend in small amounts, loans are approved instantly and, with minimal paperwork.
15. There are opportunities of enhancing Uganda’s fair lending practices to increase access to credit by the majority in the country. Several international countries have used these fair lending guidelines to increase financial inclusion.
16. There is need to strengthen the alignment between the planning, budgeting and budget implementation processes. Many priorities in the NDPs have not been implemented and the potential has not been reached. The Government at all levels needs to design and implement a mechanism that will require much stronger alignment and integration between the planning, budgeting and budget implementation processes in order to increase the rate of realization of national priorities and maximize synergies.
17. In addition to the high lending rates, there are high incidental costs incurred when borrowing funds from banks. These costs include; project proposal fees, approval fees, valuation fees, legal fees, statutory fees and loan supervision fees. These costs exacerbate the already high lending rates which render the Ugandan businesses uncompetitive in comparison with foreign investors who access loans at lower interest rates in their countries of origin.
18. While challenges to accessing credit by the private sector are many, two major interventions by Government can go a long way in alleviating this problem. These include;
* More funding for existing public banks whose goals should be targeted to national development rather than profit-maximization as is done by the private banks.
* Government should end or at least reduce its appetite for borrowing from local commercial banks which always leads to hiking the lending rates to the riskier and more expensive supervised private sector yet the private sector is the engine to national growth.
1. **Conclusion**

The Forum was officially closed by the Prime Minister of Uganda, Rt. Hon. Robinah Nabbanja who was represented by Hon. Chris Baryomunsi, the Minister for ICT and National Guidance. In her closing remarks, she commended the Minister of State in Charge of Planning, the NPA Chairperson, and the technical teams for the thematic study aimed at guiding the Government on the best option for Public Investment in the Banking Sector.

The Prime Minister reiterated Government’s commitment to implementing the evidence-based policy recommendations of the study in a bid to extend commercial banking services to the people. She further highlighted Government’s active role in addressing some major restrictions to credit availability, for example; the recapitalization of Uganda Development Bank (UDB) to the tune of UGX 1 trillion in order to establish more accommodating conditions on cost of credit, collateral requirements & streamlined loan processing.

The Prime Minister further emphasized the importance of pursuing progressive and inclusive approaches to increase access of affordable financing for all. This allows industries to develop, increase the productive capacity, which will further improve the overall quality of life.