INTERVENTION POLICY BY GOVERNMENT OF UGANDA (GOU)

AND BANK OF UGANDA (BOU)

In recent years the financial system in Uganda suffered severe problems arising from poor performance of several major banks.

The actions taken during the on-going reform of the financial sector included:

(i) Placing UCB non-performing portfolio with a specially created NPART, providing UCB with foreign technical assistance to improve management; preparing UCB for privatization, with the assistance of an international investment bank; re-capitalizing UCB with GOU bonds; and, evaluating the consequences of UCB privatisation on providing banking services in remote districts.

(ii) Enforcing a new minimum capital requirement for banks which was reached by December 31, 1996.

(iii) Strengthening the capacity and skills of BOU Supervision Department.

(iv) Creating a Deposit Insurance Scheme to protect depositors. The Deposit Insurance Fund collects an annual premium from all banks and received an initial grant from GOU.

The GOU and BOU are determined that future problems in commercial banks will be treated in a way that will: (i) provide for a healthy financial sector, (ii) take action if and when necessary immediately when a problem is identified, and (iii) minimise the budgetary costs of future such intervention.

To reach these goals the following policies will be adopted and implemented:

- The moratorium on the licensing of new banks (except when special benefits are expected, as in the case of the entry of a major international banking group) will be initially extended for 2 additional years, at the end of which the Government and BOU will review the need for a further extension, such extensions will prevent the proliferation of small, undercapitalised banks and ease the supervision and monitoring of commercial banks.

- It is the Government policy to require banks to have sufficient capital in order to strengthen the financial system. The Government will submit to parliament an amendment to the Financial Institutions Act, to authorise the Governor of BOU in consultation with the Minister of Finance, to update the minimum capital requirements. It is the Government's intention to reach, at a minimum, a doubling of the minimum capital requirement by end - 1999.

- BOU will continue to strengthen its supervision and monitoring capacity, and to implement all internationally accepted standards for banks' financial reporting and financial position. Special effort will be undertaken to direct the banks external auditors to follow and certify the audited banks treatment of their portfolio classification, the adequacy of their provisioning for bad-debt and the supervision of all interest in arrears.

- A public declaration will be made stating that in the future, banks that do not meet the BOU standards will be intervened and where a bank will be liquidated, BOU commitment to depositors will be limited to the Ush 3 million per depositor covered under the Deposit Insurance Scheme.

- A contingent intervention plan will be prepared and followed when needed. This plan relates to intervention due to deterioration of a bank's financial position. Other types of intervention may be temporary, with the bank remaining open or closed at the discretion of BOU, and with the bank returned to the management of its owners once the purpose of intervention is achieved.

Such contingent plan will include the following elements:

(i) Intervention will take place if a bank fails to meet BOU requirements and to agree with BOU on corrective measures to be taken within an agreed timetable, not to exceed 6 months. Failure to meet interim targets during such period will justify immediate intervention.

(ii) Once intervention takes place, the intervened bank will be closed while an auditing firm nominated by BOU review the bank's financial position and identifies its assets and liabilities.

(iii) The list of deposits eligible for protection under the Deposit Insurance Scheme, excluding depositors that have debts to the bank, shareholders (other than holders of a small number of shares with non influence in the bank conduct of business), the bank directors and officials, will be established and steps taken to repay depositors their protected deposits within 90 days from intervention.

(iv) The collection of all debt and safe of assets will be undertaken by a liquidator that will then repay residual amounts of deposits and other liabilities (according to the priorities decreed by Uganda laws) of the intervened bank in instalments when the revenue from the sale of assets and collections of loans will provide enough funds after all funds provided from the Deposits Insurance Scheme are repaid.

(v) If the liquidator will find that the policy of selling the bank as a going concern to new owners is feasible and will result in better financial outcome, the bank will be sold and opened for business under the management of the new owners, once the sale and the new owners are approved by BOU.

(vi) Prompt legal action will be taken against the intervened bank major shareholders, directors, officials and auditors for any fraudulent actions for which they are responsible.

BANK OF UGANDA

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