

# BANK OF UGANDA



## REMARKS

By

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At the Launch of the Absa SME Academy 2019

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*Kampala, July 30, 2019*

The Chairman and Members of the Board of Barclays Bank Uganda Limited

The outgoing Managing Director of Barclays Bank, Mr. Rakesh Jha

The incoming Managing Director of Barclays Bank, Mr Mahmood Nazim

The Faculty and mentees of the Absa SME Academy

All distinguished guests

The Media Fraternity

Ladies and Gentlemen

Good morning!

Let me begin by thanking the Board and Management of Barclays Bank Uganda Limited for inviting me to preside over the official launch of the bank's SME Academy for 2019. I particularly want to commend the outgoing Managing Director, Mr. Rakesh Jha, for his strategic leadership that has seen Barclays bank play an important part in the banking industry's financial inclusion agenda.

I believe initiatives like this Absa SME academy are essential catalysts in the drive for structural transformation of the economy and the attendant wellbeing of Ugandans. This is through the expected creation and sustenance of modern commercial enterprises that can offer higher formal job opportunities, higher incomes and productivity as well as undertake production at a relatively larger scale compared to subsistence agriculture. This is the development trajectory observed in the advanced economies that

Uganda seeks. Unfortunately, the bulk of Uganda's labor-force is engaged in subsistence agriculture or informal family micro-enterprises. According to the 2018 Statistical abstract by the Uganda Bureau of Statistics (UBOS), over sixty percent of the working population remain in the agriculture sector (including forestry and fishing), and more than half of the working population are in what is termed as vulnerable employment (i.e. own account workers and contributing family workers that are less likely to have formal work arrangements).

Therefore, for our economy to achieve the transformation agenda set out in the Vision 2040, set up and expansion of domestic commercial enterprises to large scale is of paramount importance. In my remarks this morning, I wish to deliver a few messages that I hope will be covered in the course of the training. These messages are primarily to the entrepreneurs, including prospective ones, as well as some messages directed to providers of financial solutions.

The first message to the entrepreneurs is to have a vision and belief in the possibilities of creating large enterprises of enduring value. You must have the desire and strategic foresight to grow the business firm from its small size start up to a medium or large scale. Surprisingly, this vision is largely missing amongst SMEs with the latest available survey data<sup>1</sup> for 2015 revealing that the overwhelming majority of enterprises in Uganda did not expect to grow to the extent of employing at least 5 people within a five year period.

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<sup>1</sup> Global Entrepreneurship Monitor Report

This trend needs to change and we are not short of examples of entrepreneurs that have started small and scaled the heights. The Late James Mulwana and the Mulwana Group of Companies is a case in point.

The second message is to encourage each one of us to formalize our business units. Formalization may include at the bare minimum, registration and licensing of the enterprise with the respective regulatory authority or local government, setting in place systems for work processes and decision making, and the employment of professional staff. These professional staff may not necessarily be permanent employees, especially for the small scale enterprises, but rather qualified professionals whose counsel should be sought to guide any critical business decision. Formalization may infer several benefits such as enabling your access to opportunities in public and private procurements, including taking advantage of the national local content regulatory provisions.

In addition, founders or owners of business enterprises should be ready to detach their personal finances from the business entity. However, this is rare. Available World Bank Enterprise surveys<sup>2</sup> data reveals that Uganda has a disproportionate number of medium to large scale firms as sole proprietorships relative to the Sub-Saharan African average. This means that the business owner bears the full impact of a business loss.

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<sup>2</sup> [www.enterprisesurveys.org/](http://www.enterprisesurveys.org/)

This I believe can change with entrepreneurship training such as in this Absa Academy, so that a larger number of business enterprises can stand a higher chance of transcending the life of the founder or owner.

Third and related to the above is that a formalized enterprise with proper books of accounts may stand a greater chance of obtaining finance from the formal financial sector. With a clear trail of accounting and management records, potential financiers should find it easier to accurately assess the risk of lending to your businesses and also have higher confidence in your ability to meet your financing obligations. It is also expected that clean business records would ultimately be reflected in easier financing terms.

One avenue for financing business growth that remains largely untapped in Uganda is the capital markets with instruments such as private equity placements. This financing model remains constrained largely due to the informality of businesses and reluctance by business owners to disclose information, yet transparency and accuracy of business records is a critical issue for anyone to buy equity in any business enterprise. Related to this is the need for us to consider optimizing our social networks to pool resources into joint commercial ventures.

Permit me now to speak about the cost of financial services which is recognized as one of the hindrances to business growth. Indeed, the 2017-2018 edition of the Global Competitiveness Index indicates that business

executives reported tax rates, corruption and access to financing as the top most problematic factors for doing business in Uganda. For the financing aspect, affordability of financial services was highlighted as a critical matter.

The issue of high lending interest rates by commercial banks remains topical and several initiatives to sustainably address it are ongoing. Some of the interventions include implementation of the national financial inclusion strategy that is spearheaded by the Bank of Uganda; the public infrastructure investments and reforms in the financial sector and other arms of government or agencies like judiciary and land registry. These interventions should result in a lower cost of doing business for the economy as a whole. The supervised financial institutions are also adapting their business models and optimizing technological solutions to reduce on their operating costs which should overtime result in lower interest rates.

Beyond lending interest rates, I must express our displeasure at the relatively high charges being imposed on some of the financial solutions. A case in point are the mobile money charges for sending monetary value within the same network in Uganda, which are currently about double the applicable rate in Kenya and Tanzania, if the local shilling rates are converted into US dollar terms. Related to that is the issue of interoperability of systems across platforms, institutions and sectors which should be pursued by stakeholders to enable users of financial services to maximize the full potential of the value proposition for digital financial solutions.

I appeal to all providers of financial solutions to ensure that pricing and structuring of financial solutions prioritise crowding in consumers and not anything else that risks undermining the gains made so far in the financial inclusion agenda.

Finally, I have some good news. The central banks in the East African Community shall be exploring ways of transforming the East African Payments System (EAPS) and linking it with other payment solutions on the African continent to enable the seamless transfer of monetary value across the continent at both retail and wholesale levels. This should support intra African trade and further support the growth of our commercial enterprises.

Ladies and gentlemen, the ultimate purpose of financial inclusion as explicitly stated in the Uganda National Financial Inclusion strategy, 2017-2022, is reducing poverty. I therefore hope that most of the SMEs benefiting from this Absa academy training, shall graduate into large commercial enterprises over the next decade or so, and contribute to economic empowerment of thousands of Ugandans that you shall be employing.

It is now my honor and pleasure to formally declare the Absa SME Academy launched. I thank you for listening to me.