

Bank closures, mergers and takeovers have been key characteristics of the industry. **Eronie Kamukama** traces growth in the banking sector since independence.

Kampala Road and a few surrounding streets are visibly home to many banks in Uganda such as Bank of Africa, Stanbic Bank, Housing Finance Bank, Tropical Bank, Barclays Bank, Bank of Baroda, dfcu bank, KCB Uganda, Centenary Bank, Bank of Uganda, Cairo International Bank and Orient Bank. Just at the outskirts of Kampala road, other banks such as Standard Chartered Bank, Diamond Trust Bank are also noticeable.

These form part of the 24 commercial banks, six credit institutions and three microfinance deposit taking institutions that Uganda hosts today. They are the key players for Uganda to attain meaningful economic growth and productivity, financial experts say.

According to Uganda Bankers' Association (UBA), Uganda's banking sector has grown from the first commercial bank, the National Bank of India, now Stanbic Bank established in 1906. Bank closures, mergers and takeovers have been key characteristics of the industry.

Before independence

Before Uganda attained independence in 1962, the sector was dominated by foreign owned commercial banks. Uganda's first local commercial bank was fortunately born out of an Act of Parliament as Uganda Credit and Savings Bank in 1965 and became Uganda Commercial Bank (UCB) in 1969.

Bank of Uganda, the central bank, arrived in 1966 followed by Uganda Development Bank (UDB) in 1972. With UCB and UDB in place, government-owned banks dominated the sector, UBA says. Eight years after independence, Uganda had more than 290 bank branches. Fast forward today, Uganda has a branch network of almost 200.

UBA chairman Fabian Kasi says over the last 55 years of independence, the sector has grown as evidenced by the increase in commercial banks, with a loan portfolio of more than Shs11 trillion and deposits of more than Shs15 trillion.

Speaking to *Prosper* magazine in an interview in August this year, Ms Justine Bagenda, the executive director supervision Bank of Uganda, said all banks in Uganda are currently adequately capitalised because they meet the minimum paid up and ongoing capital adequacy requirements.

PwC country senior partner Francis Kamulegeya says the sector has remained resilient within the current regulatory environment.

"Regulation is one of the best in the region as central bank is very strong and willing to intervene whenever there is a potential systemic impact on the economy," he explains.

Mr Kamulegeya says the sector is boosting the economy.

"When you look at the total amount of credit within the economy, it is high. But in some cases, it is concentrated in the corporate and real estate. If you are doing business, you borrow from the bank so they are helping," he says.

He says banks can do more although they have been too cautious and risk-averse lately because of the Non-Performing Loans last year.

Mr Kasi says the sector has boosted the economy because the banks facilitate investment and it is through investment that jobs are created, production grows as well as tax collections.

However, experts say the economy is not

Growth in banking sector



Some samples of Bank of Uganda Shilling notes issued in 1973 and 1979, respectively. PHOTO BY RACHEL MABALA

growing as fast as it used to, affecting the sector in turn. According to Standard Chartered Bank Board chairman, Mr Robin Kibuuka, for 2016/2017, gross domestic product grew by 3.9 per cent which is considerably below the historical rate of about 7 per cent. This is low even by regional standards, he adds.

"The economy is struggling mainly because there was a drought last year. But when business is not operating well, businesses find it difficult to pay their loans and individuals so there are a lot of non-performing loans in the sector, something we need to address. Many banks have to look at their clients, either restructure their loans to help the customer in the best way they can," Mr Kibuuka says. Fortunately, interest rates are lowering and bankers expect it to alleviate the situation.

Challenges

The industry has evolved over time but still grapples with challenges. High cost of credit continues to loom, biting into the pockets of Ugandans. The average bank lending rate for Shilling dominated loans in April 2017 was 20.5 per cent. Lending rates have remained high because banks incur substantial costs in doing business, Bank of Uganda says.

Also, Mr Kibuuka says in Uganda and East Africa particularly, banks are suffering competition from mobile money because there are now more mobile money accounts than bank accounts. Although they are small amounts, a lot of money has flocked to mobile money.

Banking penetration in Uganda remains low, creating challenges for the economy. A FinScope Uganda survey done in 2006 shows the banking sector serves only 18 per cent of potential clients.

Finance minister Matia Kasajja says the banking sector has become more competitive in recent years but the urban-rural economic disparity is still reflected in the

financial sector.

"Financial services are more concentrated in the capital city and major towns yet access to financial service rural needs is vital for financial inclusion and economic development in low income countries such as Uganda," he said during the Annual Bankers' Conference in July this year.

Luckily, in January 2016, Parliament passed a revised Financial Institutions Act which enables banks to do Islamic banking, sell insurance products on behalf of insurers and sell bank products through agents.

"The regulations were approved last month, banks need to rationalise branches and use technology to reduce our costs and compete with mobile money. We can use agents to do the business for us which will be cheaper for us and we shall be in more places and have links in rural areas," Mr Kibuuka says.

Future of banking

Ms Bagenda says Uganda's overall banking sector is and will remain stable in future despite the economic challenges.

"The stability of the sector hinges on the overall performance of the economy and the effectiveness of the supervisory infrastructure which is being strengthened to address dynamic risks in the sector. Therefore, the banking sector is stable and will remain so in the foreseeable future," Ms Bagenda said.

Experts note that the future of banking is digital. Uganda Bankers' Association says digitalisation is killing banking the way it is known. Financial Sector Deepening Uganda notes that with the technology wave, banks will have to invest in digital financial services that have the potential to break down barriers to access to finance and open up opportunities for poor people in the remotest areas of Uganda.

What you should know about supporting contracts

These contracts more often than not, serve the purpose of strengthening other Islamic commercial law contracts in facilitating trading. They include; security contracts, *wadiah* (safe custody), *qardh hasan* (benevolent loan), *hiwalah* (transfer of debt), *tabarru'u* (donation), *hibah* (gift), *waqf* (endowment), *ibra'* (rebate), *tanazul* (waive of rights), *muqasah* (set off), *wa'ad* (promise), *Hamish jiddiyah* (security deposit), *urubn* (earnest money), *ta'widh* (compensation), *gharamah* (penalty), and *rahn* (mortgage) as explained below and in the future articles.

Security contracts

These contracts aim at safeguarding the interest of contracting parties or the party in whose favour the contract is effected. Security contracts include; *kafalah* (guarantee), *wakalah* (agency) that are commonly used in debt transactions where the creditor asks for security from the debtor.

In *kafalah* (guarantee) contract, the guarantor conjoins the guaranteed party in assuming the latter's liability with regard to the settlement of a claim. *Kafalah* establishes a right to the creditor to claim the debt either from the debtor or from the guarantor. If the guarantor pays the debt to the creditor, he will assume the right to claim it back from the principal debtor.

Examples of *kafala* based products include; Islamic bank guarantee, Islamic shipping guarantee, Islamic corporate guarantee, Islamic underwriting exercise, In Islamic bank guarantee for example, the bank charges the customer a fee for its ser-

vices. Upon receipt of claim (if any) from the beneficiary, the bank pays the guaranteed amount and claims it from the principal debtor.

In *wakalah* (agency) contract, the principal (*muwakkil*) delegates another party to conclude a certain permissible deal on his behalf. *Wakalah* is a non-binding contract where both parties (principal and agent) may withdraw from it at any point in time except if it is paid for, or if an agent earks on the agency task that cannot be stopped without causing harm to himself or the principal, or if either party has projected not to revoke the contract within a specified period.

Application

Since most contemporary Islamic products in consumer financing are debased, for reasons explained in the preceding article, various Islamic financing practices are tied to the concept of agency in *oway* or another. This is because Islamic banks cannot make direct financial loans. Rier, they initially appoint their clients as agents in buying commodities of their desire from the market on behalf of the bank. The bank sells the same commodity to the client.

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