EVALUATING THE ROLE OF THE CENTRAL BANK IN THE SUPERVISION OF COMMERCIAL BANKS IN UGANDA.

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2011/HD06/3123U

A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF A DEGREE OF MASTERS OF BUSINESS ADMINISTRATION OF MAKERERE UNIVERSITY.

SEPTEMBER 2013.
APPROVAL

This report has been read and approved by the following person:

Signed ....................................  Date.........................................................

Dr. Olowo Patrick

SUPERVISOR
DECLARATION

I Luwaguzi John hereby declare to the best of my knowledge that the work presented in this report had never been submitted and neither is it being prepared for submission to any other institution of higher learning for any degree.

Signed ………………………………………… Date ………………………………

Luwaguzi John

CANDIDATE
ACKNOWLEDGEMENT

I wish to acknowledge with thanks the significant contribution to this piece of work a milestone in my academic career.

I am very grateful to my supervisor, Dr. Olowo Patrick whose technical guidance enabled me to compile this report.

I thank my father Mr. Semakula Paul Sebukalu for sponsoring my Masters of Business Administration (MBA) course. A vote of thanks to my research assistants; Pauline and Simon despite their busy schedules volunteered to help me in collecting data and this exercise was accomplished in a short time.

I acknowledge from the depth of my heart the members and staff of Bank of Uganda, Stanbic Bank, Centenary Bank, Housing Finance Bank and Barclays Bank, who responded to my questionnaires.

All those people whom I may have forgotten to acknowledge by name for their indebted contribution academically and morally, thank you.
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CHAPTER ONE

1.0 Background to the study

Commercial banks are very special to the public and the economy since banks provide brokerage related services (between savers and borrowers), asset transformation related services (bonds, equity and other debt claims, which they finance by selling to household investors in the form of deposits, insurance policies). (Saunders, Marcia, 2011).

The Financial Institutions Act gives authority to the Central Bank of Uganda to supervise all financial institutions in the country (Financial Institutions Act 2004). Financial institutions include commercial banks, Microfinance Deposit taking Institutions (MDIs).

Bank supervisors engage in extensive monitoring of banking organizations in order to enforce regulations and guard against systemic risk. (Krainer, Lopez, 2004).

On-site supervisory visits produce a detailed picture of an institution’s financial condition and risk profile. Most commercial banks typically receive about one on-site visit per year. Off-site monitoring typically consists gathering and analyzing supervisory data through standard regulatory reporting forms. These data arrive on a quarterly basis and provide detailed information on a bank’s balance sheet and performance history.

Banking supervision has generally set the tasks of helping to prevent the occurrence of systemic risk to the banking sector as well as to increase the transparency and effectiveness of the banking sector to contribute to the protection of small depositors.
Several central banks have lost their bank supervisory responsibilities (Joe, Eric and Geoffrey 1999).

1.2 Statement of the problem.

The emergency of commercial banks in Uganda is seen as a step towards economic development. The public has been excited about the continued emergence of commercial banks because they bring about competition, which reduces interest rates payable on loans, improves the quality of services offered to the clients. Though commercial banks are expected to remain in business for the longest time, we have witnessed a number of them being closed by the Central Bank for example, Greenland bank (GBL), TransAfrica Bank Ltd, International Credit Bank (ICB) and recently National Bank of Commerce (NBC) (Roger, 2008 and Bank of Uganda Press release statement September 2012). This has happened due to so many issues like bankruptcy and corporate governance, despite the supervisory role by the Central Bank. The closure of financial institutions incites an investigation of how the regulatory framework of the Central bank works in supervising the dealings of the commercial banks in Uganda.

1.3 Purpose of the study

The purpose of the study was to establish how effectively the Central Bank supervises commercial banks in Uganda. Additionally, the study aimed at suggesting strategies that can improve the quality of commercial bank supervision.

1.4 Research objectives

i) To assess the methods used by the central bank when supervising commercial banks in Uganda.
ii) To investigate the effectiveness of banking supervision by the central bank of Uganda.

iii) To establish the factors influencing the closure of commercial banks in Uganda.

1.5 Research questions

i) What methods are used by the central bank when supervising commercial banks in Uganda?

ii) How effective is the banking supervision done by the central bank of Uganda?

iii) What are the factors that influence the closure of commercial banks in Uganda?

1.6 Significance of the study

Banking supervision has been generally set with the tasks of helping to prevent the occurrence of systemic risk (bank failure) to the banking sector and its consequences, to monitor risk-taking by banks as well as to increase the transparency and effectiveness of the banking sector and to contribute to the protection of small depositors, the government safety net and the economy as a whole.

This research will also help Bank of Uganda improve the way it supervises the commercial banks in Uganda by implementing the findings of this research.

Foreign investors that are thinking of setting up commercial banks in Uganda will benefit by making appropriate decisions resulting from the findings of this research.

Findings of the research will add to the existing literature on the related studies, which will benefit future researchers and academicians as references.
1.7 Scope of the study

The research was carried out in Bank of Uganda and some selected Commercial banks that are located in Kampala District and it focused on the supervisory role of the Central banks towards these Commercial banks. The Central Bank was chosen because it has the powers from the Financial Institutions Act to carry out the supervisory role while the Commercial banks were selected because they (Commercial banks) directly benefit from this supervision.
CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this section the researcher portrayed and analyzed the literature written by other scholars on the subject of discussion. The researcher in this chapter investigated on what methods are used by the Central Bank when supervising Commercial Banks in Uganda; How effective the Banking supervision by the Central Bank is; and factors that are influencing the closure of Commercial Banks in Uganda. The presentation included theoretical review, and the views of other researchers in order to widen the scrutiny on the subject and to ease the reader’s understanding.

2.1 Methods used when supervising commercial banks.

Krainer et al (2004) states that bank supervisors engage in extensive monitoring of banking organizations in order to enforce regulations and guard against systemic risk.

Systemic risk may be defined as the risk of a sudden, unanticipated event that would damage the financial system to such an extent that economic activity in the wider economy would suffer. Franklin and Richard (2001) they go on to state that such shocks may originate inside or outside the financial sector and may include the sudden failure of a major participant in the financial system, a technological breakdown at a critical stage of settlements or payments systems, or a political shock such as an invasion or the imposition of exchange controls in an important financial center.

Various agencies conduct both on-site and off-site inspections of banks and their subsidiaries. On-site supervisory visits provide a detailed picture of an institution’s
financial condition and risk profile. While, off-site monitoring typically consists of gathering and analyzing supervisory data through standard regulatory forms.

The Financial Institutions Act (2004, 79) imposes on the Central Bank the duty to appoint any officer to make inspections to financial institutions, its financial records and books of accounts in such a manner that is conducive to the nation’s prosperity and welfare, and in so doing seek to keep the value as stable as possible. Financial Institutions Act, (2004). The converse argument is that there are significant information and operational advantages to leaving the job of supervising commercial banks within the umbrella of the central bank, making it easier or the central bank to observe anomalies and react in a timely way to curb possible problems. The central bank may also find it easier to adopt a systemic or macro prudential view of banking system rather than a sole focus on individual institutions.

The Financial Institutions Act (2004) S79 (1) states that the Central bank may periodically or at its discretion, cause an inspection to be made, by an officer of the Central bank or other person appointed by the Central bank, of any financial institution and of its financial records and books of accounts on the premises of the financial institution and shall provide to that financial institution a copy of the report on inspection. The Act in subsection (2) goes ahead to direct financial institutions to furnish to the appointed officer making an inspection all such books of accounts and financial records and other documents as well as assets including cash, notes and securities held by the financial institution in its custody or power and furnish the officer with such statements or information relating to the affairs of the financial institution as the officer may require of it within such reasonable time as the officer may specify. An officer who fails to comply with the directive commits an offence
and is liable on conviction to a fine not exceeding fifty currency points or imprisonment not exceeding six month or both.

The Financial Institutions Act (2004), S79 (4) directs the officer of the central bank or any person appointed under subsection (1) after inspection to prepare and submit a report which shall draw attention to any breach or contravention of the Act, regulations, notices or directions issued under the Act, any weaknesses in systems control and procedures or in the manner of conduct of the business of the financial institution inspected, any mismanagement, and such other matter relating to the business of the financial institution not consistent with sound banking practices.

Smits (1996) states that the central bank’s central task is to exercise prudential supervision over credit and investment institutions and exchange offices. He goes ahead and states that the other tasks of the bank would include facilitating the payment system and issuing banknotes.

Financial Institutions Act (2004), S80 (1) specifies the information that the financial institutions should furnish to the Central bank and these include all information and data of its operations in Uganda including periodic returns called for by the Central bank and the audited balance sheet and profit and loss account and those of any company which is a subsidiary, affiliate, associate or holding company to that financial institution which the Central bank may require for the proper discharge of its functions under the Act.

Subsection (2) requires financial institutions to report all loans granted or extended to its insiders at least once every month. The Central bank is required to impose
restrictions on the operations of a financial institution, which fails to provide information required under Section 80 or which provides false information.

2.2 Effectiveness of Banking Supervision.

The primary objective of the regulatory system is to maintain price stability, reduce bank fragility and so avoid systemic bank failure in the commercial banks (Smits, 1996). He goes ahead and states that the regulatory system also contributes to the smooth conduct of prudential supervision of the commercial banks.

Bank supervision is always discussed in the context of crisis prevention, however, Beck, Demirguc and Levine (2003) points out that banking crises is not only criterion for supervision. This implies a need to also focus on the relationship between bank supervision and macro economy. Diamond and Dybvig (1983) point out generally that financial crises and panics involve problems of coordination and collective action. In defending the continuance of the Federal Reserve in playing the roles of banking system supervisor, payment system regulator as well as monetary policymaker, Bernanke (2007) highlights the benefits of the multiple roles of the Federal Reserve in times of financial panics or crises, as for federal reserve is able to provide appropriate liquidity to the banking system.

Beck et al (2003) also find that in countries where bank supervision forces accurate disclosure of information, firms tend to face lower obstacles in obtaining finances. The private monitoring of banks through increased disclosure lowers the degree to which corruption of bank officials is an obstacle to firms obtaining external financing.

Barth, Caprio and Levine (2004) find that supervisory practices favoring increased disclosure and transparency were synonymous with a boost in the development of the
banking system as indicated by the ratio of private credit to Gross Domestic Product (GDP) and an increase in the efficiency of intermediation as measured by lower net interest margins and overheads. They also found that supervisory policies that empower the public sector to monitor banks are associated with higher levels of bank development even in countries where the legal and accounting systems may be unreliable.

Peek, Rosengren and Tootell, (1999) show that supervisory information gathered through bank examinations can improve the conduct of monetary policy.

Bank supervision is also done to reduce bank fragility and so avoid systemic bank failures. Systemic banking crises also effect bank supervision.

The regulatory system enables the central bank to act as a lender of last resort and a crisis manager. (Joe, et al, 1999). He goes ahead and shows that, the information obtained from the bank supervisory function can help the Federal Reserve to conduct monetary policy more effectively. The central bank has been seen by Krainer et al, (2004) as a specialist in solving problems of asymmetric information between firms and investors.

The ever-widening scope of business activities carried out by financial institutions today that ranges from banking, securities, insurance services and real estate investments. Institutions may have functions that go well beyond their traditional ones. Financial institutions are also becoming larger conglomerates, with a range of activities being carried out in-house creating the opportunity for risk to transfer easily across the different sector of financial services. This calls in the regulatory authority
to come in due to the overlapping activities that the different financial institutions are carrying out.

An important aspect is how independent the supervisory agency is in carrying out its duties, for supervision to be effective, Quintyn, Taylor (2004) suggest that bank supervisors must be independent from politicians; bank supervisors should be appointed on merit, preferably by the majority of the legislative body of a country and not just by an autocratic head of state.

The supervisory authority must have powers that enable it to take prompt corrective action when it observes deterioration in bank solvency levels, to restructure and reorganize a troubled bank and in extreme circumstances, declare a seriously troubled bank insolvent. Financial Institutions Act (2004). The Act goes ahead and states that, when violations in regulation and legal requirements or imprudent behavior by banks are observed, the supervisory authority should have the discretion to address these issues.

2.3 Factor influencing the closure of commercial banks.

The closure of commercial banks has been linked many factor, for example, the boom and subsequent bust in the real estate and the fortunes of agriculture led to the closure of banks in America. (Wheelock and Wilson, 1995). This is also supported by Mitchener (2005) who states that differences in business and agricultural conditions across localities may account for much of the variations in failure rates across counties.

Matama (2008), emphasizes that the closure of commercial banks especially banks in Uganda is due to poor corporate performance. The factors responsible for poor
corporate performance emanate from lack of transparency, accountability and poor ethical conduct (Kibirango, 1999). Beck (2005) argues that politicians do not maximize social welfare and may induce banks to channel credit to politically connected firms.

Commercial banks failures have been linked to self-inflicted causes resulting from bank owners which includes among others insider lending. Matama (2008) goes ahead and highlights that “insufficient financial disclosure evidenced by high level of off-balance sheet items, lack of transparency resulting from gross mismanagement and dubious accounting actions as was observed in Green Land bank are detrimental to interests of banks stakeholders especially depositors.” The bank’s capital, asset and earnings values are affected and as a result the financial performance is questionable and this may be due to corporate governance. Policy makers both past and present have also laid some of the blame on weak supervisory and regulatory institutions (Mitchener, 2005).

Branching has also been known to cause commercial banks’ closure since branching allows banks to diversify their portfolio and hence weeding out weak banks from the banking system.
CHAPTER THREE

METHODOLOGY

3.0 Introduction.
This chapter looks at research design, the population covered, the sample size and the sampling strategy, data collection methods that were used and the procedure, which was followed in data collection, how the data was analyzed, presented and implemented. It concludes by giving limitations to the study and how the limitations were addressed.

3.1 Research Design.
Mixed studies of both qualitative and quantitative study designs were employed. Cross-sectional and descriptive study designs were used due to the time factor and the nature of the study.

3.2 Study Population
The study population was composed of 29 banks comprising of the Central Bank and the different Commercial Banks within Uganda. The population of 29 banks was stratified according to the functions that these banks perform in driving the economy of Uganda and the fact that these banks are supervised by the Central Bank. From the Central Bank, the researcher was interested in the Supervisory department.

3.3 Sample Design and Size.
A sample is a proportion of total population and it can be developed using the following formulae:

\[ n = \frac{N}{1} + N(e)^2 \]

where, N is the total population and ‘e’ is error or level, n is the sample size.
The methodology generated a total sample of 52. A mixture of sampling techniques were used to eliminate the bias from the selection process. That is, purposive where some respondents were selected because the researcher believed they possessed the needed information that was appropriate for the research. Stratified was used in order to ensure that staff within the supervisory department of the Central Bank participated proportionately equally and simple random sampling techniques were used to select the sample of the study.

The researcher used purposive sampling to select the commercial banks, which were used in studying the operation of the supervisory department of the Central Bank and how the employees in the Commercial Banks perceived supervision. Four commercial banks out of the twenty-seven were selected because they were the biggest, had more chances of success and had more clients as compared to the rest of the commercial banks.

Bank Of Uganda was studied. Network sampling was used to identify supervisors for questioning. For Senior Management in Bank of Uganda, censuses were carried out on heads of department of the regulatory and supervisory departments. On basis of the recommendations of Dawson (2002), ten (10) seniors from the supervisory department were selected using purposive sampling technique.
<table>
<thead>
<tr>
<th>Respondents</th>
<th>Target Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Managers from Bank of Uganda</td>
<td>10</td>
</tr>
<tr>
<td>Influential Employees in Commercial Banks</td>
<td></td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>10</td>
</tr>
<tr>
<td>Centenary Bank</td>
<td>10</td>
</tr>
<tr>
<td>Housing finance Bank</td>
<td>10</td>
</tr>
<tr>
<td>Stanbic Bank</td>
<td>12</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

3.4 Sources of Data.

Both secondary and primary sources of data were used. Secondary data included, Magazines and Business journals, Annual reports, Financial Institutions Act 2004, Bank of Uganda press releases, Regulatory and Supervisory reports, and any other documents that provided the necessary information. Primary data was collected using self-administered questionnaires and focus group interviews guide.

3.5 Data collection methods.

A questionnaire with both close-ended questions and open-ended questions was used because the closed-ended questionnaire guided the respondents to select a single response from the defined questions. While an open-ended questions were used by the researcher to collect personal views and recommendations. The questionnaires were prepared and delivered to the respondent after which the researcher collected.
Interviews both structured and non-structured and document reviews were among the tools used.

3.6 Data processing and analysis.

The data collected was edited, classified and coded so as to make it ready for analysis. Thereafter-descriptive statistical methods were conducted in order to analyze the data.

3.7 Anticipated problems.

- Due to the sensitivity of the data, some respondents did not open up to provide the required information during interviews.
- Access of data in document review was difficult.
- Misinterpretation of facts was bound to happen in case of interviewing.

The above challenges were addressed in the following ways:

- The researcher kept on emphasizing to the respondents that the information was required for study purposes and that the information obtained will be treated with a lot of confidentiality that it deserves.
- The researcher tried to look for as much data as he could from whatever documents he came across.
CHAPTER FOUR

PRESENTATION OF FINDINGS AND DISCUSSION

4.0 Introduction

This chapter presents and analyses the study findings that were generated by the primary data collected. The findings were discussed basing on the study objectives with the view of answering the research questions.

Tables and figures have been used to present the findings. The results are presented and discussed under the following sub-headings: the characteristics of the sample, findings on the methods used when supervising commercial banks, the effectiveness of banking supervision in commercial banks, and factors influencing the closure of commercial banks

4.1 Characteristics of the sample

4.1.1 Sex of the Respondents.

The sex of the respondents was composed of 29 males and 21 females out of a total of 52 respondents. Males were 56 percent of the respondents and females were 40 percent.
Table 4.1: Sex of the Respondents.

<table>
<thead>
<tr>
<th>Sex</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>29</td>
<td>56</td>
</tr>
<tr>
<td>Female</td>
<td>21</td>
<td>40</td>
</tr>
<tr>
<td>Non response</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Respondent’s primary data collected.

The data distribution of respondents according to the data provided as shown in the table 4.1 above shows that males who were represented by 56% were more than the females who were represented by 40%. However there were 2 respondents that never returned the questionnaires representing 4% of the whole population.
4.1.2 Department of the Respondents.

The respondents that answered the questionnaires were from operations, risk management, credit, reconciliation and treasury as shown in table 4.2 below:

**Table 4.2: Respondents according to department**

<table>
<thead>
<tr>
<th>Department of respondent</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>Operations</td>
<td>12</td>
<td>23</td>
</tr>
<tr>
<td>Risk Management</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Reconciliation</td>
<td>15</td>
<td>29</td>
</tr>
<tr>
<td>Treasury</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Non Response</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Researcher’s primary data collected.*

Respondents were categorized according to their departments as shown in table 4.2 above. The most respondents came from the reconciliation department with 15 respondents in number (29%), these were followed by the operations department with 12 respondents in number (23%), followed by the credit department with 10 respondents (19%), then the risk management with 9 respondents (17%), and lastly the least number of respondents came from the treasury department with 4 respondents and that was (8%). Plus the non-response with 2 persons represented by (4%). This indicates that the questionnaires were mainly answered by respondents from the reconciliation department which gives the researcher accurate data since they
(reconciliation department) come into contact more frequently with the supervisors from the Central Bank than respondents from other departments.

4.1.3 Designation of the Respondents.

The respondents to the questionnaire were treasury officers, reconciliation officers, risk control managers, and tellers as shown in table 4.3 below:

**Table 4.3: Respondents according to Job Titles.**

<table>
<thead>
<tr>
<th>Type of Respondents</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tellers</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>Treasury Officers</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Reconciliation Officer</td>
<td>30</td>
<td>58</td>
</tr>
<tr>
<td>Risk Control Managers</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Non Response</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Researcher’s primary data collected.*

The Respondents were categorized according to their job titles as shown in table 4.3 above. Reconciliation officers were the majority with 30 respondents in number (58%), followed by tellers with 10 respondents representing 19%, followed by risk control managers with 7 respondents representing 13% and the least respondents were treasury officers with 3 respondents representing 6%.
4.1.4 Respondents number of years in the Bank.

Respondent’s number of years in the banking system was tabulated using an interval of 5 years as shown in the table 4.4 below:

**Table 4.4: Respondents number of years in the Bank.**

<table>
<thead>
<tr>
<th>Years in the Bank</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤5</td>
<td>35</td>
<td>67</td>
</tr>
<tr>
<td>6-10</td>
<td>13</td>
<td>25</td>
</tr>
<tr>
<td>11-15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>16+</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Non Response</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Researcher’s primary data collected.*

Table 4.4 shows that the majority of the respondents worked in the bank for 5 years or less than 5 years which represents 67%, this was followed by those that had been in the bank for 6-10 years who represented 25% of the respondents, there were no respondents in the interval of 11-15 years but 4% of the respondents had worked in the bank for more than 16 years.
4.2 FINDINGS

4.2.1 The methods used when supervising Commercial Banks.

The researcher was able to analyze item by item in order to fully examine the nature of the responses and the results are indicated as follows;

**Supervision**

The supervision of all Financial Institutions in Uganda which include Commercial Banks, Micro Finance Institutions is done by the Central Bank of Uganda which in this case is the Bank Of Uganda according to the Financial Institutions Act 2004, which states that the Central Bank may periodically or at any time at its discretion, cause an inspection to be made, by an officer of the Central Bank or other person appointed by the Central Bank, of any financial institution and of its financial records and books of accounts on the premises of the financial institution and shall provide that financial institution a copy of the report on inspection. The researcher found out that, this practice is still being followed by the Central Bank which send out it supervisors to the “field” to conduct supervision of the commercial banks.

The inspection is done both on-site or off-site. On-site which means, the supervisor from the Central Bank or any person appointed by the Central Bank to carry out supervision is present/situated on a particular site or premises. While off-site supervision is done away from the premises where by the supervisor inspects reports filed by the financial institutions.

In the questionnaires, the respondents were asked whether they agreed with financial institutions first obtaining licenses, whether financial institutions should transact as companies, financial institution may not carry out business outside Uganda except with the consent of the Central Bank, the Central Bank may at any time without prior
notice authorize an officer to enter commercial bank premises, search for any book, record or documents that are contravening with the set standards of the Central Bank, the Central Bank shall require to be satisfied with the financial history of the applicant, the nature of business of the applicant, the competence and integrity of the proposed management, the capital structure and business plan, geographical location of the proposed business, the Central Bank may at any time revoke the license of a financial institution if the institution has failed to comply with any instructions or directions given by the Central Bank.

**Table 4.5: Respondents’ views on Supervision.**

<table>
<thead>
<tr>
<th>Level of knowledge</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little Knowledge</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Dissatisfied</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Satisfied</td>
<td>45</td>
<td>87</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Researcher’s primary data collected.*

Table 4.5 above shows that 45 respondents out of the total represented by 87% were satisfied with the way the Central Bank supervised the Commercial Bank while 5 respondents were dissatisfied with the way the Central Bank did the supervision exercise and this was represented by 9% and lastly 2 respondents (who did not return the questionnaires) had little knowledge about supervision representing 4% of the total population. The researcher found out that was very helpful to the Central Bank since most of the population in the Banking system know the advantages of supervision and appreciate it (supervision), which quickens the supervisory role of the Central Bank in supervising the Commercial Banks.
The researcher found out that most of the respondents were agreeing with the Financial Institutions Act which prohibited any person from operating a deposit taking or any other financial institution business in Uganda without a valid license, this means that all deposit taking institutions or financial institutions operating in Uganda have valid licenses which were granted by the Central Bank and therefore their (Financial Institutions) transactions are regulated by the Central Bank. This shows that the Central Bank has knowledge about the existence of all Financial Institutions operating in Uganda.

The researcher also found out that most respondents were either disagreeing or were not sure whether the off-site visits were effective. Off-site visits are those whereby supervision is done away from the premises, the supervisor inspects reports and other documents filed by the financial institutions. The respondents were arguing that off-site visit were not transparent and that the supervisory reports from these visits were hard to follow up and implementation of recommendations becomes very difficult due to the many activities involved. One of the respondents actually stated that, “some financial institutions file wrong information in these reports because they know that it will be very difficult for the supervisor to follow up”.

The findings show that other respondents from the commercial banks were in support of off-site visits and this was because the on-site visits put them (commercial bank employees) on a lot of pressure and since these visit happen with out notice scares them which means that their banks may be closed incase they are found indulging in illegal activities.
4.2.2 Effectiveness of Banking Supervision.

The researcher found out that a good and effective supervision exercise could help in maintaining price stability by making sure banks and other financial institutions are not reaping off their customers, this also avoids instances of systemic risk and this is in agreement with Smits, 1996’s statement that the regulatory system contributes to the smooth conduct of commercial banks management.

The researcher was able to find out that most of the respondents that answered the questionnaires were in agreement that commercial banks were implementing the terms and conditions that the Central Bank had set during or after supervision had been done. This contradicts other respondents who said that “procedures laid down by the supervisors before supervision is done or the recommendations that are given by the supervisors after supervision is done are in most cases not strictly followed by the commercial banks especially if there is a money impact involved.”

Other respondents were disagreeing that the Central Bank did not have a well structured supervisory department and this the researcher found out that it is one of the reason that has led to the closure of some commercial banks like the National Bank of commerce (NBC) in September 2012 because the supervisory department was unable to detect the mismanagement that was going on in that bank.

The majority of the respondents were strongly disagreeing that the information provided by the commercial banks was very helpful and that the supervisor cannot rely on such information.

The researcher also found out that banking supervision helps in vetting directors of the financial institutions and this has helped to ensure high standards of conduct and
management throughout the banking system, this most of the respondents strongly agreed to.

4.2.3. Factors influencing the closure of Commercial Banks.

The respondents had different answers as to why commercial banks have been failing in Uganda, some said that politics was the main factor as to why banks collapse while others associated the closure of commercial banks to the weak supervision policies.

The results are presented in table 4.6 below:

Table 4.6: Respondents views why Commercial Banks fail.

<table>
<thead>
<tr>
<th>Level of Knowledge</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Politics</td>
<td>30</td>
<td>58</td>
</tr>
<tr>
<td>Weak Supervision</td>
<td>19</td>
<td>37</td>
</tr>
<tr>
<td>Not Sure</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Researcher’s primary data collected.

Table 4.6 above shows that the majority of the respondents said that politics is the main cause of commercial bank failure with 30 respondents in number (58%) while 19 respondents (37%) said that the main cause of bank failure was the weak supervision by the Central Bank, 3 respondents were not sure why Commercial Banks fail represented by 5% of the population.

The researcher found that the respondents that said politics caused bank failure are in agreement with Beck (2005) who argues that politicians do not maximize social welfare and may induce banks to channel credit to politically connected firms.
The other 37% of the respondents that said that the closure of commercial banks was due to the weak supervision of the Central Bank where in agreement with Matama (2008) who emphasized that the closure of Commercial Banks especially in Uganda is due to poor corporate performance and bank owners practicing insider lending. Which practices would not have happened if there were perfect supervision.

The researcher found out that most respondents were in agreement with the statement that the closure of commercial banks was due to the recession and boom that hit the world in the late 2009.

The researcher also found out that other respondents agreed that the differences in business and agricultural conditions across Uganda were the other factors that contributed to the closure of commercial banks. This is in agreement with Wheelock et al (1995) who stated that the busts in fortunes of agriculture led to the closure of commercial banks in America. This is also supported by Mitchener (2005) who also said that the differences in agricultural conditions across localities may account for much of the variations in failure rates across the country.

The researcher also found out that lack of transparency resulting from gross mismanagement and dubious accounting actions has led to bank failures and hence closure.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of findings, conclusions and recommendations of the evaluation of the role of the Central Bank in the supervision of Commercial banks in Uganda.

5.1 CONCLUSION

Based on the study findings it is evident that the Central Bank is without doubt doing its role of supervising the commercial banks and other financial institutions through the supervisors that it (Central Bank) sends to the “field” to supervise and make reports at the end of the supervision. The supervisory department is headed by a director of supervision who assigns different financial institution to different supervisors.

5.1.1 Methods used when supervising Commercial Banks.

The Central Bank uses various methods of supervising when supervising commercial banks and other financial institution. The study findings revealed that some of the methods that are widely used by the Central Bank in supervising commercial banks include; on-site visits, off-site visits, licensing where by those financial institutions that are not implementing the set guide lines risk their licenses being revoked by the Central Bank. The study findings also revealed that on-site visits where by the supervisors are physically present at the premises of the commercial banks they supervise are more common and are also frequently done by the supervisors from the Central Bank. The Central Bank appointing personnel on its behalf to supervise the commercial banks is also recommended by Financial Institutions Act but this practice
is not very common since the Central Bank has as many supervisors employed as the commercial banks in Uganda.

The study findings revealed that supervision is frequently done and most bank employees who showed satisfaction with the way supervision of commercial banks was done attested the ways in which it was done.

5.1.2 Effectiveness of Banking Supervision.

Whether the banking supervision is effective remains a question to be answered as the study findings revealed that most bank employees detested the method of off-site supervision as being ineffective. Yet they (bank employees) where against the on-site visits because some of them said that this method is abrupt hence leaving them with no time to prepare for it, some respondents complained that they needed time to put every thing in place and prepare for the questions that would be asked by the supervisors before the (supervisors) came but instead the supervisors just come without prior notice. This is actually good because it gives the supervisor a chance to find the commercial bank owners in whatever state they are in at that moment instead of giving prior notice for the commercial bank owner to rectify all that was wrong before the supervisors came.

The study findings also revealed that since commercial banks try as much as possible to maximize profits, they (commercial banks) find it very difficult to implement recommendations that are set by the Central Bank after supervision is done especially those recommendations that involve spending money.

It was also revealed that banking supervision helped in vetting directors of commercial banks, which in turn helped to ensure high standards of conduct and
management throughout the banking system. This shows that if supervision of commercial banks is seriously done it could be very effective in preventing closure of commercial banks and preventing systemic risk in the banking sector.

5.1.3 Factors influencing the closure of commercial banks.

The study findings revealed that the commercial banks closure is highly associated with politics and a few banks have been closed due to weak supervisory activities. Those commercial banks that were closed due to politics, respondents agreed that politicians were influencing banks into channeling finances to politically motivated activities that would not pay off in a long time like political campaigns.

The respondents also recited some commercial banks that were closed due to the weak supervisory activities by the Central Bank, they said that the Central Bank failed to detect the corporate governance activities that were happening in banks like the National Bank of Commerce (NBC) that was recently closed by the Central Bank.

5.2 RECOMMENDATIONS

5.2.1 Strategies to improve the quality of commercial banks supervision.

The strategies that can help the Central Bank to improve on the supervision of the commercial banks so that commercial bank failure and closure may be minimized,
this can be done by intensifying on-site visits and spot checks to the commercial banks in order for the Central Bank to understand the commercial banks’ operations. This will prevent commercial bank’s manager from involving in scrupulous activities without the Central Bank’s knowledge.

The Central Bank should regularly organize refresher trainings for commercial bank managers so that they (managers) are fully aware of Central Bank expectations, instituting more stringent rules to be followed by commercial banks and ensure commercial banks’ adherence to set terms and conditions.

As much as possible, the Central Bank should avoid political interference. Senior politicians like ministers should have no stake in commercial banks to avoid conflict of interest and they should avoid interfering with the Central Bank activities and intimidating Central Bank staff that in turn may fail to give a negative report against the banks these politicians own.

The Central Bank should use accredited independent auditors and supervisors from different countries like Britain, India, Germany other than its own internal staff to carry out audit and supervision respectively on its behalf since these auditors and supervisors from a different country would be more professional, free from bias and their recommendations would be objective and true.

The Central Bank should be able and willing to listen to what commercial banks have to say and then addressing the problems faced by the commercial banks, by doing this, the Central Bank would have improved the quality of commercial banks supervision.
Post audit trails on commercial banks should be carried out as well as standardizing internal control guidelines to make conformity and supervision in such affected areas of banking easy and effective. Central Bank should also supervise parent banks of new foreign banks entering the Ugandan market.

The Central Bank should also vet bank staff to ensure that they (staff) are of the right qualification academically and professionally and have sufficient experience and moral standing to carry out the designated work, instead of vetting directors and council members only.

The Central Bank should employee more supervisors to handle the increasing number of commercial banks in Uganda; rotation of these supervisors could also be practiced so that biasness is eliminated.

References


APPENDIX I

Budget

<table>
<thead>
<tr>
<th>No.</th>
<th>Item</th>
<th>Amount</th>
<th>Estimated cost</th>
<th>Total Amount</th>
</tr>
</thead>
</table>

33
<table>
<thead>
<tr>
<th></th>
<th><strong>Stationary</strong></th>
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</thead>
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<td></td>
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<td>18000</td>
</tr>
<tr>
<td></td>
<td>b Pens</td>
<td>20</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>c Toner</td>
<td>2</td>
<td>80000</td>
</tr>
<tr>
<td></td>
<td>d Typing, Printing, Binding, Photocopying</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>2</td>
<td><strong>Allowances</strong></td>
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</tr>
<tr>
<td></td>
<td>a Lunch</td>
<td>200,000</td>
<td>200,000</td>
</tr>
<tr>
<td></td>
<td>b Transport</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>3</td>
<td>Data Analysis</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>4</td>
<td>Miscellaneous</td>
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<td>300,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
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</tbody>
</table>

**APPENDIX II**

**Time Frame**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time</th>
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</thead>
<tbody>
<tr>
<td>Proposal Writing</td>
<td>October to November 2012</td>
</tr>
<tr>
<td>Activity</td>
<td>Timeframe</td>
</tr>
<tr>
<td>---------------------------------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Questionnaire and Interview schedule formulation</td>
<td>January</td>
</tr>
<tr>
<td>Data Collection</td>
<td>February to April</td>
</tr>
<tr>
<td>Data Processing and analysis</td>
<td>May to June</td>
</tr>
<tr>
<td>Interpretation of results and writing a draft report</td>
<td>July</td>
</tr>
<tr>
<td>Writing and submission of a final report</td>
<td>August to September</td>
</tr>
</tbody>
</table>
July 22nd, 2013

Head of Supervision
Bank of Uganda
Kampala
Dear Sir/Madam

Re: Mr. Luwaguzi John

This is to introduce to you Mr. Luwaguzi John a second year student of Makerere University, College of Business and Management Sciences pursuing the degree of Master of Business Administration.

John, would like to collect data for his research study entitled; “The evaluation of the role of the Central Bank in the Supervision of Commercial banks in Uganda”. This research project is part of the requirements for the award of the degree of Master of Business Administration of Makerere University. Thus, any assistance rendered to him highly appreciated.

Thank you.

Yours faithfully

[Signature]

Dr. Geoffrey Akileng
COORDINATOR GRADUATE STUDIES AND RESEARCH
SCHOOL OF BUSINESS

APPENDIX IV
College of Business and Management Sciences (COBAMS)  
School of Business  
Department of Accounting & Finance

July 22nd, 2013

To Whom It May Concern

Dear Sir/Madam

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Thank you.

Yours faithfully

[Signature]

Dr. Godfrey Akieng  
COORDINATOR GRADUATE STUDIES AND RESEARCH  
SCHOOL OF BUSINESS

APPENDIX V
July 22nd, 2013

Head of Supervision
Bank of Uganda
Kampala
Dear Sir/Madam

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Thank you.

Yours faithfully

Dr. Geoffrey Akieng
COORDINATOR GRADUATE STUDIES AND RESEARCH
SCHOOL OF BUSINESS

BANK OF UGANDA
2 JUL 2013
RECEIVED
DIRECTOR COMMERCIAL BANKING

APPENDIX VI
Dear Respondent,

This questionnaire is intended to enable the researcher fulfill the requirements of a Master of Business Administration of Makerere University. The findings will add to the body of knowledge in supervision of Commercial Banks by the Central Bank and will help policy makers and the general publics improve on the way Commercial Banks are perceived.

You are kindly requested to fill it and the information you provide will strictly be used for academic purposes only and will be kept confidential.

Questionnaire reference number ………………………………………

Date of interview………………………………………………………. 

Luwaguzi John

RESEARCHER

1.0 BACKGROUND INFORMATION
1.1 Sex .............................................

1.2 Department

........................................................................................................

1.3 Job title/Designation

........................................................................................................

1.4 Years in the Bank

........................................................................................................

2.0 ROLE OF THE CENTRAL BANK IN THE SUPERVISION OF COMMERCIAL BANKS.

This set of questions deals with various aspects of how the supervisors in Bank of Uganda do their work, effectiveness of the supervision and factor leading to the closure of Commercial Banks.

Please tick (✓) according to the level you agree or disagree with the statements below.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Not Sure</th>
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<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
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</table>

How satisfied are you with

<table>
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<tr>
<th>Supervision composition</th>
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<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervision Member competence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supervision member relevant experience</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Supervision member independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supervision member professionalism</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supervision Leadership</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To what extent do you agree with the statements below

<table>
<thead>
<tr>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is enough disclosure of financial information by the Commercial Banks.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Central Bank has a sound supervision procedure/system.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Central Bank encourages Supervisors to come up with recommendations on how to improve supervision.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The recommendations given by the supervisors are taken up by the Central Bank and implemented.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The procedure followed by the commercial banks to acquire a license is bureaucratic.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The licenses obtained by the commercial banks have always been used as recommended.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-site visits are very effective.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Off-site visits are very effective.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Each commercial bank should have a specific assigned supervisor.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Banks should have a supervisory department that is answerable to the Central Bank.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The supervisory report should be published in the press</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Banks are implementing the terms and conditions set by the Central Bank.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The information provided by the commercial banks is very helpful and can be relied on by the Central Bank.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking supervision helps in vetting directors of the financial institutions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This has helped to ensure high standards of conduct and management throughout the banking system.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 3.0 How can bank closure be prevented?
Thank you for your time and consideration.

APPENDIX VII
Dear Respondent,

This questionnaire is intended to enable the researcher fulfill the requirements of a Master of Business Administration of Makerere University. The findings will add to the body of knowledge in supervision of Commercial Banks by the Central Bank and will help policy makers and the general publics improve on the way Commercial Banks are perceived.

You are kindly requested to fill it and the information you provide will strictly be used for academic purposes only and will be kept confidential.

Questionnaire reference number …………………………………………

Date of interview……………………………………………………....

Luwaguzi John

RESEARCHER
3.0 BACKGROUND INFORMATION

1.1 Sex ...........................................

1.2 Department .................................................................

1.3 Job title/Designation ..............................................................

1.4 Years in the Bank ...............................................................  

4.0 ROLE OF THE CENTRAL BANK IN THE SUPERVISION OF COMMERCIAL BANKS.

This set of questions deals with various aspects of how the supervisors in Bank of Uganda do their work, effectiveness of the supervision and factor leading to the closure of Commercial Banks.

Please tick (✓) according to the level you agree or disagree with the statements below.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

Methods used when supervising commercial banks.  

A person shall not transact any deposit-taking or other financial institution business in Uganda without a valid license.

No person shall be granted a license to transact business as a financial institution unless it is a company.

On-site visits are very effective.

Off-site visits are very effective.

A financial institution shall not open or set up a subsidiary, branch or representative office or transact financial institution business outside Uganda or acquire an interest in any undertaking conducting business outside Uganda, except with the consent of the Central Bank.

No company shall carry on business as a commercial bank,
merchant bank, mortgage bank or post office savings bank unless it uses as part of its name the word “bank” or one of its derivatives.

The Central bank may, at any time and without prior notice in writing authorize an officer of the Central Bank to:

a) Enter any premises which the Central Bank has reason to believe are occupied or used in contravention of using as part of its name the word “bank”

| b) Search for any book, record statement, document or other item used, or which is believed to be used, in connection with the contravention of (a) above. |
| c) Seize or make a copy of any book, record, statement, documents or other item referred to in part (b), or seize any money found on the premises. |
| d) Question any person who is present on the premises referred to in part (a), or the auditors, directors, members or partners of any person conducting business on the premises, in connection with the conducting of the business on the premises. |
| e) Examine any book, record, statement, document or other item referred to in part (b) and may require from any person referred to in part (d) an explanation regarding any entry in the book, record, statement, document or other item. |

The Central Bank shall, in considering an application for a license require to be satisfied as to:

| a) The financial condition and history of the applicant. |
| b) The nature of the business of the applicant including the range of services and products proposed. |
| c) The competence and integrity of the proposed management. |
d) The adequacy of the applicant’s capital structure, earning prospects, business plans, financial plans.

e) Geographical locations and branch distribution network of the proposed business.

f) Whether the directors and officers of the applicant are fit and proper persons for the purpose of transacting business as a financial institution.

g) The structure and shareholding of the group of companies of which the applicant forms a part or intends to form a part.

h) Whether the applicant is or will be able to apply or maintain adequate, effective and proper internal control systems when conducting financial institution business under the license.

i) Whether public or economic interest will be served by the granting of the license.

The Central Bank shall, within six months after receipt of an application, or of the additional information or clarification, investigate and prepare a detailed report in respect of each application.

The applicant shall, upon being granted a license pay a fee prescribed by the Central Bank by notice and the holder of the license shall after that pay an annual fee prescribed by the Central Bank on or before the 31st day of January of each year.

A license granted shall, be kept displayed in its original form in a conspicuous place in the premises and copies of it shall be similarly displayed in each of its branch offices.

The Central Bank may, at any time, revoke a license of a financial institution if it is satisfied that the financial institution at any time:

a) Has ceased to carry on business.
<p>| | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>b)</td>
<td>Has gone into liquidation.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c)</td>
<td>Is significantly undercapitalized and is unable to pay its liabilities as they mature.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d)</td>
<td>Has been wound up.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e)</td>
<td>Is in the opinion of the Central Bank conducting business in a manner detrimental to the interests of depositors.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f)</td>
<td>Has engaged in serious deception of the Central Bank or the general public in respect of its financial condition, ownership, management, operations or other facts material to the business.</td>
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<td>g)</td>
<td>Has without the consent of the Central Bank amalgamated with another financial institution or sold or otherwise transferred its assets and liabilities to another financial institution.</td>
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<td>i)</td>
<td>Has failed to comply with any instructions or direction given by the Central Bank</td>
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</tbody>
</table>
This section looks at the effectiveness of Banking supervision in Commercial Banks. Please rate the statements given below using the scale ranging from strongly Agree to Not Sure by ticking the correct box (✓).

<table>
<thead>
<tr>
<th>To what extent do you agree with the statements below?</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks are implementing the terms and conditions set by the Central Bank.</td>
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<tr>
<td>The Central Bank has a well-structured supervisory department.</td>
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<td>The reporting procedures after supervision is done are strictly followed.</td>
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<tr>
<td>The recommendations drawn by the supervisors are put in place by the Central Bank.</td>
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<tr>
<td>Information provided by Commercial Banks is very helpful and can be easily relied on by the supervisor.</td>
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<tr>
<td>The frequency with which the on-site visits are done is very helpful.</td>
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<td>Banking supervision helps in vetting directors of the financial institutions.</td>
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<td>This has helped to ensure high standards of conduct and management throughout the banking system.</td>
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</tbody>
</table>
This section looks at the factors influencing the closure of Commercial Banks. Please rate the statements given below using the scale ranging from strongly Agree to Not Sure by ticking the correct box (✓).

<table>
<thead>
<tr>
<th>To what extent do you agree with the statements below?</th>
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<th>3</th>
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<tr>
<td>The recession and boom that hit the world in the late 2009.</td>
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<td>Differences in business and agricultural conditions across Uganda.</td>
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<td>Poor corporate performance for example, lack of transparency, accountability and poor ethical conduct.</td>
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<td>Politicians induce banks to channel credit to politically connected firms.</td>
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<td>Self-inflicted causes resulting from bank owners for example, insider lending.</td>
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<td>Insufficient financial disclosure evidenced by high level off-balance sheet items.</td>
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<td>Weak supervisory and regulatory institutions.</td>
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<td>Branching allows banks to diversify their portfolio and hence weeding out weak banks from the banking system.</td>
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<td>Lack of transparency resulting from gross mismanagement and dubious accounting actions.</td>
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<td>The central bank is being strict with the regulations that it (Central Bank) issues to the Commercial Banks.</td>
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<td>Clients that are meant to open up accounts in the Commercial Banks are becoming very hard to come by and maintain in the banking business.</td>
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<td>No person or group of related persons shall acquire more than five per cent of the shares of a financial institution.</td>
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<tr>
<td>Financial institutions are not allowed to issue a transfer of shares exceeding five per cent of the shares of a financial institution to any person or group of related persons.</td>
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<td>The Central Bank may prescribe higher on-going capital requirements for a specific financial institution if the</td>
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</tbody>
</table>
supervisory review process reveals existing risks in the financial institution warranting the increase.

3.0 How can Bank of Uganda improve the quality of commercial banks supervision?

Thank you for your time and consideration