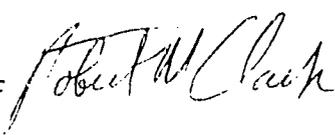


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**NILE BANK
SUPPORT PROJECT
FINAL REPORT**

TechnoServe Uganda
Kampala

ATTN: USAID
NILE BANK LIMITED
TECHNOSERVE

FROM: Robert M. Clark, Country Director 

DATE: September 24, 1994

SUBJ: NILE BANK SUPPORT PROJECT, FINAL REPORT

TechnoServe, a United States Private Voluntary Organization has been providing technical and professional support to Nile Bank Limited under the terms of cooperative agreement number FAO-0104-A-00-2031-00 dated July 14, 1992 with the United States Agency for International Development (USAID). Funding has been provided by USAID under the Rehabilitation of Productive Enterprises Project (617-0104) which terminates on September 24, 1994 and therefore brings the Nile Bank support project to a close.

The stated purpose of the RPE is to increase agricultural production, processing and services through intermediate term lending to private sector agricultural enterprises for productive investment in rehabilitation and/or expansion of their facilities. A secondary objective of the project is to increase the capacity of the Ugandan banking system to administer intermediate term lending. This institution building objective is necessary to achieve the project purpose. The project has also been expected to have an important impact on the employment of the rural poor and private sector development.

To specifically accomplish the banking system related goal, TechnoServe was engaged to provide assistance to Nile Bank to improve its appraisal, monitoring, and supervision systems, collection activities and restructuring of systems, procedures and responsible units.

A baseline study was completed by TechnoServe covering the overall Ugandan financial environment, the country's banking system, the Nile Bank, the agricultural sector, and opportunities for increasing the bank's financing of non traditional agricultural enterprises particularly those with the potential for developing an export capability.

The workplan prepared by TechnoServe covers five major activities:

1. Credit Policy and Procedure Development
2. Credit Area Reorganization/Loan Administration
3. Operations/Electronic Data Processing Development
4. Deposit Mobilization/Mobile Branch
5. Project Identification/Finance/Syndications

In addition, there were a number of unforeseen issues that surfaced during the course of the project which, while not included in the basic five activities originally identified, were addressed as part of an expanded role undertaken by the TechnoServe Project Advisors.

TechnoServe support has been provided through the services of two expatriate Banking Advisors who brought to the project many years of experience with major U.S. banking institutions. Working with their staff of two qualified Ugandan Project Advisors, together with Nile Bank Officers and staff, their contributions include, preparation of Operational Procedure Manuals which documents the work flow and procedures throughout the bank, putting in place a formal Credit Policy Manual, establishing the Credit policies and procedures of the bank creation, of a new Money Market Account offering depositors a floating interest rate tied to the Government Treasury Bill rate, providing an armored vehicle and instituting a Mobile Banking service to rural communities that currently do not have access to banking facilities and will result in the lending of their deposits back in the form of loans to the agricultural community, providing for foreign exchange trading capabilities through establishing procedures, training staff, and setting up a dealing function, various training courses and seminars for officers and staff of the bank, and the improvement of computer/MIS capabilities by providing support for both the main computer system of the bank, and strengthening personal computer skills through out the entire organization.

At the beginning of the support project in 1992, it was headed up by David Munro who with the combination of having successfully completed a similar banking project in Sudan, and experience gained at two major banks in the U.S., functioned as both the Credit Advisor and as the TechnoServe Country Director. In May 1993, Robert Clark with thirty five years experience as a Vice President with the Chase Manhattan Bank in the U.S., Nigeria and Hong Kong joined the project as the Operations Advisor. With the sudden departure of Mr. Munro in July 1993, Mr. Clark assumed the position of Country Director in addition to Operations Advisor responsibilities. In November 1993, David Morris, a former Vice President with Citibank with over twenty five years' experience in the lending side of banking including Africa and the Middle East, joined the project as the new Credit Advisor.

Through the entire two year life span of the project, Irene Ntanda, a Graduate from Sukhadia University (India) and Gordon Kihuguru, a Graduate of Makerere University were seconded from their Banking Officer positions with Nile Bank, and as TechnoServe Project Advisors participated most capably and effectively in every aspect of the project.

The following will provide the final report on each of the activities of the project including those undertaken as part of the expanded role assumed by TechnoServe during the life of the project.

Activity 1. Credit Policy and Procedure Development

Purpose: To enhance the existing policy framework, introduce the appropriate level of credit analysis, augment loan structures used by the Bank, revise credit approval procedures, train staff in the foregoing.

A credit policy manual, written by the previous Credit Advisor was introduced in August 1993. The new procedures covered the non specialized lending guidelines and controls needed by Nile Bank. The new policy emphasized the disciplines of prudent lending practice e.g. delegation of authority, completion of credit applications with standards for financial disclosure by the applicant or borrower, and administrative routine needed to manage any transaction from disbursement through collection.

The Bank of Uganda (BOU) Supervision Department subsequently reviewed the text and communicated additional guidelines and recommendations. The BOU recommendations were primarily designed to reflect the new rules and reporting requirements of the Financial Institutions Act of 1993, a law designed to bring Ugandan Banks in conformance with banking regulations in the developed countries.

As his initial assignment the new Credit Advisor drafted the revisions covering the management of the problem or non performing advances and periodic reporting requirements to BOU. The addendum was adopted in May 1994, after review and approval of both Nile Bank Board of Directors and Bank of Uganda.

Results of the Output

Implementation of the manual produced some areas of progress but left undone a number of critical areas where compliance was not met. Lack of adherence to the manual policy, principally in the financial and risk assessment of new and existing borrowers, held back efforts to reduce the amount of new delinquencies and contributed to collection problems.

The Baseline Study identified the need for implementation and adherence to controls and working procedures if the Bank were to reduce the risk of continued loan losses or slow the increase.

While the senior officers initiated steps, including resumption of the formal Credit Committee meeting, to comply with the delegation of authority guidelines, adherence to the procedures for evaluating the credit worthiness and collateral/security risk was not consistently followed.

The most noteworthy shortcoming occurred in the preliminary risk assessment phase of the extension of a new loan or overdraft when the financial strength of the applicant should be determined upon analyzing its historical and current financial statement. After the introduction of the manual, exceptions were noted for large and small borrowers where the financial statement was not obtained and analyzed. The reason cited for not seeking a reasonable financial disclosure was an accepted opinion that financial statement figures, if submitted, were unlikely to be reliable or credible. Local market practice at Nile Bank and other institutions relies on knowledge of the customer, history of activity in the applicant's current account and collateral security. Financial statements are not necessarily considered reliable.

With the March, 1994 change in Chief Managers for Credit and Investment, an effort began to comply with the new guidelines covering management of delinquent advances and BOU standards for identification of non performing advances. For example, procedures were implemented to ensure that the quarterly report to the Bank of Uganda for non performing advances was correct. In turn, correct accounting for the non performing advances lead to more accurate reports for monthly interest income and net profit or loss.

Delinquencies continued to occur on new advances, in part because the loan origination and underwriting standards, established in the credit policy manual, were not being followed for analyzing the financial statements, projections etc. New past due obligations were reported and increased because the response time and action taken to collect these past due accounts were slow.

2. Credit Analysis Training Materials

TechnoServe identified the needs of an inexperienced group of new banking officers and delivered training ranging from a one week, intense seminar conducted by Management Advisory Services, Seattle, to the working classroom sessions covering such topics as the new policy manual procedures in respect to proper loan underwriting, collection strategy and techniques, business contracts and the use of the letters of credit in trade transactions.

Once Credit committee meetings resumed in February, applications were reviewed with the responsible banking officer and Chief Manager, Credit. The sessions proved to be instructive for the officers because policy, relationship history, and collateral security issues were discussed in reference to each recommended transaction.

Results of the Output

The officers benefited by exposure to the more sophisticated lending techniques practised at other banks. While the lessons taught in the classroom have not always been followed in practice, change will eventually occur and prove that the training was beneficial.

Equally useful and probably more productive training time was spent in "one-on-one" sessions reviewing the officers' assignments from senior management or pending credit applications. In preparation for the credit committee meetings, the officers became aware of where the applications required revision or were not complete.

Activity 2: Credit Area Reorganization/Loan Administration

Purpose: To redefine functions of personnel in Credit and Investment, Merchant Banking Divisions, recommend realignment of responsibilities including assigned account responsibility, loan administration and loan workout.

Output

1. Organization Chart-Functional Assignment
 - a. Account Officer Assignments

At project mobilization date in September 1992, credit related functions were split between two chief managers, one assigned to Credit and the other heading Investments and Merchant Banking. In mid year 1993, the Chief Manager for Investments left the bank and his position was not filled, but his supervision duties were assumed by the Chief Manager, Credit.

Until then, the more sophisticated type of loan transaction (project financing or loan guaranteed by foreign bank, foreign agency such as USAID or Bank of Uganda funded scheme) was to have been underwritten and monitored by Investment and Merchant Banking.

Since the 1988 opening of Nile Bank, Investment and Merchant Banking was responsible for originating and servicing all specialized loan programs such as the BOU's crop export funding

scheme and its development fund program, the latter geared toward long term loans for purchase of fixed assets.

From the 1993 departure date of the Investment Chief until now, the Chief Manager, Credit, has been responsible for the two banking officers assigned to the BOU specialized programs and three others handling the balance of the portfolio or credit administration duties.

Results of Output

TechnoServe provided training to and assisted the banking officers with their work but played no role in reorganizing the merged departments. The Chief Manager Credit received TechnoServe's advice on how the officer assignments could be best utilized for the benefit of the organization, taking into account individual experience and skills.

- b. Creation Loan Administration (systems & procedures)
- c. Recommended staffing for Credit Area (as opposed to Loan Administration)

Results of Output

During the 1992 Baseline study period, the former Credit Advisor recognized the severity of the bank's delinquent loans after the completion of a statistical analysis of delinquencies and a file review. The recommendation was made to devote available manpower to the growing volume of non performing advances. However, it was found that there was neither a match of skills or experience to effectively work the growing volume of past due advances.

Adding three new hires at the banking officer level kept the administrative routine functioning, but responsibility for collections was left primarily to the Chief Manager. The task became impossible for the Chief to properly manage with the result being that the delinquencies were not aggressively worked and newly-identified, non performing advances increased.

Once the new Chief Manager was in place and the TechnoServe recommendations accepted, the banking officers were mobilized with problem loan responsibilities. One officer now handles administrative routine, including preparation of non performing advance, legal and collateral/security status reports recommended by TechnoServe. The other officers picked up responsibility for making customer contact, a difficult task because many relationships had not been recently worked.

The Credit Advisor suggested that if significant recoveries were to be achieved, the effort had to be directed toward the top 20-25 delinquent borrowers, representing about 50% of past due advances. This recommendation is being followed with the result being that contact with the borrower or a plan of action developed with the attorney will be accomplished shortly (end of August). Cash recoveries are beginning to be realized, but amount to less than 10% of the total for non performing obligations since the reorganization occurred.

Given a large volume of small accounts (over 800 accounts of less than USH30m/= each) it will be difficult to show meaningful results unless at least two additional, experienced collectors are hired. The portfolio is distributed in such a way that about 70 of the largest accounts (above USH20m/= each) represent 60% of total advances. This leaves 40% or about USH3 Billion in small accounts of less than USH20m/= each which must be administered and collected. There is significant potential loss in the small accounts and attention should be paid to them.

Given over 800 accounts and five officers, deployment of individuals with limited experience is inadequate to address the problem of a portfolio consisting 50% plus in non performing obligations.

2. Design/Implementation of Procedures, Reporting to Senior Management.

Since March and with resumption of the credit committee meetings, a process has started in compiling information on non performing advances (monthly review), schedules of real estate security held on loans, attorney/litigation status reports (still incomplete) and account or loan review checklists. It will be critical that these reports be prepared or updated going forward. If not, the file and departmental records will once again become outdated. Concern is expressed that the reports will not be kept up to date because of other priorities.

Results of Output

Once the Credit Committee meetings became established at month end, the forms designed for implementation in the credit policy manual were used. The Credit Advisor participated with the officers in the review of files and their recommendations for approval before each credit committee meeting.

TechnoServe assisted the Chief Manager, Credit, by participating in the first full operations audit of the Mbarara Branch. While credit quality and process were found acceptable, recommendations were developed with the Chief Manager where more effective controls and follow up procedures for branch

reconciliation are required in operations. The bank officers participating in the audit performed a thorough review and the results should have a beneficial impact on institutional operations at the Kampala head office.

3. Design/Implementation of New Loan Documentation

Neither the former nor the current Credit Advisor recommended changes in the standard loan documentation forms. Nile Bank did not underwrite new project loans or use foreign sourced loan and guaranty programs.

4. Establishment of Loan Restructuring Guidelines

Within one month after arrival last November, the current Credit Advisor proposed a methodology for negotiation/strategy of a non-performing advance, based on the decision-making process followed in the United States by major commercial banks and the Federal Deposit Insurance Corporation/Resolution Trust Corporation.

This approach suggests that the discounted present value of whatever cash or security may be recovered, be evaluated in the strategy and decision-making process. Where litigation or uncertainty of payment is likely to occur, arriving at a cash compromise settlement for a sum certain but less than what is owed may be the best choice for maximizing recovery.

Results of Output

The methodology was discussed with and illustrated to senior management and the former Chief Manager, Credit. In December 1993, Nile Bank chose not to follow this recommendation where the customer paid less than 100% of the balance of the obligation, citing the precedent of giving concessions which would be discovered by other borrowers, and tax issues.

The methodology was reviewed recently for the benefit of the new Chief Manager, Credit. Since this approach will be followed in the Uganda Commercial Bank Liquidating Trust, Nile Bank may decide to follow this accepted procedure because of the growing volume of non performing obligations, litigation/auctioneer costs, and available manpower.

Therefore, the Baseline Study assumption that action taken in loan restructuring, i.e. an active collection program with negotiated settlements or conversion of overdrafts to paying loans, resulting in a reduction of classified loans, has not shown meaningful results.

5. Establishment of Classification/Reserve/Write off Policies

Passage of the 1993 Financial Institutions Act, the 1993 year end audit by the independent accounting firm and the various TechnoServe loans reviews pointed the way to establishing policies for recognizing non performing advances, loan classifications and provisions. In fact, appropriate guidelines from the Financial Institutions Act were written into the Credit Policy Manual. Absent a full Bank of Uganda Examination since implementation of the Act, action has not been taken to fully comply with the BOU and Credit Policy Manual guidelines.

Results of Output

Through TechnoServe's recommendation, the bank undertook to recognize the real condition of the delinquent portfolio of loans and overdrafts. The accounts were examined for conformity to the BOU guidelines for performing status, whether contractual in terms of principal and interest payments or sufficient deposits over the last 180 day period to cover interest on an overdraft. Those advances which did not meet the BOU standards for payment performance were transferred to non performing status.

The independent accounting firm has indicated those major advances where a provision, as much as 100% of the obligation, should be taken. TechnoServe identified other accounts for full or partial write-off because of security valuation/perfection, non payment or litigation issues. The year end 1994 is likely to see recognition of the losses identified in the joint TechnoServe/Chief Manager, Credit reviews.

6. Training in New Policies/Procedures/Job Responsibilities

Results of Output

Three classroom training sessions and memoranda were circulated on the subject of compliance or lack of adherence. TechnoServe was most successful in pushing the policy for complying with the non performing advance reporting (accounting treatment) rules of the 1993 Financial Institutions Act. Compliance with these rules has a multipurpose effect, i.e. suspension of interest income for each 180 days past due obligation, calculation of capital requirements and budgeting.

Progress was made in utilizing forms and loan administration procedures required by the Credit Policy Manual, but the lack of progress was apparent in obtaining financial disclosure. The argument was advanced that most professional (successful) businesses can and do produce financial statements.

7. Advice on Income Planning/Budgeting Process

In credit related matters, TechnoServe expended the most time and made significant progress with this activity, both in output and training, primarily for benefit of the Finance Department staff including the Chief Manager.

Results of Output

The Baseline study identified the need for a sophisticated accurate, forecasting and performance tracking process in the Bank. Using the LOTUS software, the TechnoServe banking advisors produced performance related information (tables, charts and narrative) after mobilization date. With results from the periodic loan review exercises pointing toward a substantial need for new capital, the year end and financial reviews for the Board of Directors and the Chairman/Managing Director's solicitation of interest from African Development Bank as a potential investor, TechnoServe responded with an updated appraisal report.

This document represented a major advance by the organization in putting together financial and qualitative information needed by the potential investor, the directors and supervisory authorities.

Looking back to the end of the first quarter 1994 when the appraisal was completed, the Bank must again go through the same forecasting and analysis work because the profit and loss dynamics, capital need arising from probable write-offs and provisions for 1994 have changed significantly. With the upcoming transfer of the two TechnoServe Banking Advisors to Nile Bank, the budget and performance reporting procedures can be sustained and will be improved upon.

Activity 3: Operations/EDP Development

Purpose: To revamp operating procedures in the head office, Kampala Road Branch and Mbarara Branch (design and implement new procedures where necessary, alter entire operating processes if required), follow up work of Deloitte & Touche consultants, design and supervise development of new reports for senior management and credit/audit/finance areas, train staff.

A. Operational Procedures

In July 1993, a team consisting of the TechnoServe Operations Advisor, TechnoServe Project Advisor and the Nile Bank Deputy Chief Manager of Human Resources and Administration set about the task of charting the work flow of the entire bank in

order to prepare documented Operational Procedures. Starting with the largest and most complex area of the bank, the Operations Banking Floor the team proceeded with the interviewing, understanding, translating to flow chart format, reviewing, reworking until getting it right and then management review and approval process that was then repeated one Division at a time until the entire bank was done. With the sign off and approval of each of the Division Chief Managers, the draft procedural manual was presented to Senior Management which then required presentations by each of the ten Divisions resulting in a great number of revisions and corrections. This very lengthy intensive review and revision process was finally completed and the final version of the Operational Procedures Manual was handed over to Nile Bank Senior Management in May 1994. The end result is that Nile Bank now has in documented flow chart format the complete Operating Procedures for the bank. A residual benefit of this overall exercise is that when the project ends, we leave behind two fully qualified Nile Bank Officers who know the process and the computer software and will assume responsibility for future maintenance and updates to the manual brought about by changes in procedures, reorganizations or the introduction of new products and services.

B. Computer/EDP Support

Review of the Deloitte Touche report on Nile Bank Computer/EDP issues, interviews with the various Division Managers who constitute the user segment, and working with the Computer/EDP Manager himself have all indicated the following:

- The existing Microgas System does not completely meet current reporting requirements.
- The existing system has the capacity to do more but has not been utilized to the fullest extent.
- The existing system will be able to meet the processing and some reporting requirements for a limited period of some months or one year at the most.
- There is the need to free up the EDP Manager from day to day computer operations to enable him to address the growing information needs of the users.
- There is the need for the development of basic personal computer skills for all Nile Bank staff.

Recognizing that the TechnoServe Advisors time here would be limited, it was decided that the best approach to address these issues would be to build the capacity for sustained progress and improvement primarily through the development of the very qualified

existing Nile Bank EDP/Systems Chief Manager.

To this end, we opened a line of communication and established a rapport between the Nile Bank Manager and the TechnoServe Systems Manager in the United States. Their frequent telephone conferences and exchanges of memoranda then led to the TechnoServe Manager coming here to spend two weeks working with and providing professional guidance to the Nile Bank Manager. Their objectives were to do a complete review of Nile Bank Systems and to provide guidance, assistance, and support to enable the local manager to assume the larger role of information management and systems development.

Their time together was very productive and the potential benefits to Nile Bank were very promising. They completed a systems evaluation and recommendations, put together a recommendation for a computer steering committee with proposals for its composition, functions, format and agenda, produced an Information Systems Strategy Statement, completed the Computer and Systems Goals and Implementation Plan, formulated back up procedures and disaster recovery policies, and prepared position descriptions for both the Chief Manager and for a proposed Computer Systems Supervisor position designed to free up the Chief Manager to be able to address the information management and systems development issues that require his attention.

In order to specifically address the issues related to the Microgas System, we sent the Nile Bank Computer Manager to Bangalore India for intensive training by Index Computing, the NCR affiliate that supports the software. The objective was to provide him with the additional familiarization and training to equip him to be able to respond more effectively to the ever increasing MIS requirements of the bank.

This training has been completed, he has returned and from the report he has submitted and discussions with him, we are assured that he is now more adequately prepared to address the bank's requirements for additional and/or improved reports. He has added greatly to his familiarization and expertise with the existing system and has gained in his ability to be able to identify the present systems limitations versus the bank's requirements, and to be able to evaluate proposals for potential replacement systems.

There is every indication that between the guidance and direction received during the TechnoServe Systems Manager's visit and this additional valuable training and exposure, the Nile Bank Computer/Information Management/Systems Development Manager will be in good shape to be able to continue to move forward after the departure of the TechnoServe Advisors at the project end.

Project Advisors Irene Ntanda and Gordon Kihuguru have for the past five months been conducting daily computer training sessions for Nile Bank personnel utilizing the TechnoServe personal computers and software. The following training which has been identified as relevant to the bank is being provided.

- Introduction to Computer Applications and DOS commands.
- Introduction to Word Perfect 5.1
- Introduction to Lotus 1-2-3.

The training started with two of the Division Chief Managers and Human Resources assistants and has since extended to all levels of staff with two groups attending daily.

TechnoServe has donated two personal computers to Nile Bank which have been installed in the Credit Division and the International Division. When the support project ends, four additional computers and three printers currently used by project staff will also be donated to the bank. Therefore, we are attempting to contribute to the ongoing computerization efforts of the bank both in the form of equipment and the required training.

C. Foreign Exchange Trading

At the end of November 1993 the Ugandan Government decided to cancel weekly foreign exchange auctions conducted by the Bank of Uganda (the Central Bank) and place foreign exchange trading responsibilities with the banks, thereby creating an interbank foreign exchange market.

Recognizing that there was very little FX trading expertise available and that indigenous banks such as Nile Bank would be ill prepared to plunge into this new unfamiliar, high risk activity, TechnoServe agreed to provide a qualified consultant.

We engaged the services of a former Vice President and Treasury Officer for a major international bank in Africa. During the three month project, the consultant had responsibilities to set up and operate the foreign exchange function which included trading in the newly created interbank market. This involved actually performing the foreign exchange trading function, setting up and operating the new area and fully training Nile Bank personnel to assume these responsibilities assuring that the end result would be having in place a fully qualified, capable, effective foreign exchange operation in Nile Bank.

The project was successfully completed in three months with all of the objectives accomplished including putting in place procedures and controls, training the staff, and the preparation

documented Foreign Exchange Handbook.

D. Customer Service/Correspondence Unit

A proposal has been submitted and is being considered by management for the creation of a Customer Service/Correspondence unit to be responsive to customer inquiries and complaints. The unit would be responsible for the receipt, control and processing of customer inquiries and complaints, maintain control of incoming correspondence and provide meaningful reports to management of service quality related issues and trends before they have a major negative impact on customer services or relations.

The proposal has been written and includes procedures in a standard format and can be implemented by management when they so desire utilizing the knowledge of the Ugandan Project Advisors and the departure of TechnoServe.

E. Deposit Mobilization/Mobile Branch

Purpose: To augment the Bank's deposit base and explore the market for Mobile Branch/Community Banking Services in the rural areas.

There were two major efforts undertaken as part of this initiative. The first, directed at improving the bank's deposit base through the creation of the new Money Market Account. This account offers a floating interest rate adjusted weekly, two points below the Uganda Treasury Bill auction rate, provides an attractive investment opportunity to customers and results in additional deposits for the bank.

The establishing of this new product was proposed by management, and once accepted by Nile Bank, the format, operating procedures and controls were set up and documented, a marketing strategy detailing the features and advantages of the Money Market Account was produced and the Chairman/Managing Director and the Country Director called on the following to promote this investment vehicle.

- | | |
|----------------|----------------------------------|
| Bar Mill | Shell Uganda Ltd. |
| Bank (Kampala) | TOTAL Uganda Ltd. |
| Bank (Kampala) | Uganda Petroleum Co. Ltd. (UPET) |
| Bank (Kampala) | British Airways |
| Bank (Kampala) | Egypt Air |
| Bank (Kampala) | Ethiopian Airlines |
| Bank (Kampala) | Kenya Airways |
| Bank (Kampala) | General Machinery Ltd. |
| Bank (Kampala) | National Insurance Corporation |

IFAD (Mbarara)
UNDP (Mbarara)
Department of Agriculture
Dairy Corporation
United Assurance Company
Uganda Pharmaceuticals
AIDS Support (TASO-Kampala)
World Food Programme
CARE
World Vision
FAO
Uganda Airlines
Agip Uganda Ltd
Pan World Insurance Company
Gailey and Roberts Limited
Ministry of Energy

Sabena Airlines
Ministry of Agriculture, Animal
Industry and Fisheries
Ministry of Health
Ministry of Local Government
National Social Security Fund
Uganda Consolidated Properties
Ltd.
East Africa General Insurance
Company
Uganda American Insurance
Company
Uganda Breweries Limited
Kakira Sugar Works
Esso Standard Uganda
Nile Breweries

These marketing calls while specifically intended to sell the new Money Market Account also provided the unique opportunity to meet with very senior business and government leaders and acquaint them with the full range of accounts and services available at Nile Bank.

The proposal for this new innovative product was made in April 1993, the development of procedures and setting up within the bank and preparation of marketing materials followed immediately and the first Money Market Account was opened in July.

The second major part of this activity is the Mobile Branch concept. This is the plan to establish a Mobile Banking unit in the form of an armored vehicle to operate out of Nile Bank's Mbarara branch, to bring banking services to the rural residents of the area who normally do not have access to banking facilities. The plan then further calls for the channeling of the resulting deposits back into the same communities in the form of agricultural loans.

After a number of exploratory trips by the TechnoServe Advisors and local branch management which included assessment of business potential of the various locales and actually driving the proposed routes to insure useability of the roads, five routes have been selected which will provide access to at least eighteen towns in Mbarara/Bushenyi areas.

The project team visited similar Mobile Banking activities in Kenya to observe other banks operations, and have prepared documented procedures, a training plan and recommendations for staffing, which have all been addressed by Nile Bank Management in anticipation of the Mobile Banking starting date.

The armored vehicle has been funded by USAID through an additional grant to the cooperative agreement, approved on the

basis of TechnoServe's proposal, feasibility study and forecast of expected additional revenues and benefits to the rural agricultural community to be served. The vehicle has been constructed in the United States but unfortunately a number of manufacturing delays have put off the delivery to Uganda which of course has negatively impacted the actual starting date of the Mobile Banking service.

It had been hoped that the manufacturing delays would be compensated for by efforts to expedite the shipping and delivery of the vehicle. To this end, monetary penalties were written into the letter of credit and the terms of payment call for 60% when shipped from the U.S., 15% when cleared in Mombasa, Kenya, and the final 25% when finally cleared in Kampala. The promised shipping date from the U.S. was met but there have been unforeseen developments concerning the ship's arrival at Mombasa with the result that its delivery in Kampala will now be delayed until end of September or early October.

In the meanwhile, the project team has travelled twice more to the Mbarara region to finalize procedures, training and staffing with the branch management and to do a final review of the proposed routes. The current position is that Nile Bank, TechnoServe and the potential customers are all ready and waiting and have all of the plans in place to launch the service as soon as the armored van arrives.

In order to provide the technical support which will be required for the successful implementation of this new service, a special agreement has been reached for TechnoServe to keep one Advisor on location for a limited extended period.

Activity 5: Project Identification/Finance/Syndications

Purpose: To work with Investment and Merchant Banking staff interviewing prospective clients, preparing feasibility studies, liaising with correspondent bankers, working with other local financial institutions to encourage joint financing, possible development of syndications.

The Baseline Study suggested that sizeable project lending portfolio (up to \$500,000 or equivalent) could be created. However, a number of uncontrollable events occurred which left Nile Bank doing essentially what all banks in this market do, extend short term loans for inventory, crop purchase, capital improvements or fixed asset (machinery, vehicles etc) needs.

The idea of doing project loans with maturities of greater than one year for fixed asset acquisition seemed possible, given the number of guaranty programs or funding sources in place

such as Equator Bank, USAID or other foreign government agency and regional authority programs.

However, during mid-year 1993, the momentum for completing a transaction slowed after the Chief Manager for Investments and Merchant Banking left and a complex transaction to Uganda Castor Oil failed to close over differences in terms and conditions for the loan agreement.

The loss of the Chief Manager left the organization without a skilled or experienced person who could put a project loan together.

During late 1993, the bank continued to experience a number of problems, including inadequate local currency funds for new lending, a smaller legal lending limit and the realization that some of the external programs offered unfavorable terms (Equator Bank) which the applicant and/or bank did not want.

The USAID program might have been actively utilized if the bank were in micro lending, but approval of new transactions under this scheme did not materialize. The value of taking an additional guaranty was questioned when each new loan was believed to be well secured and the source of repayment identified.

A second large loan application, which covered the working capital needs of Uganda's only privatized cotton ginnery, could not be closed for a number of reasons, including absence of BOU funding for the traditional cotton export purposes, the size of the requested transaction, lack of an operating account history and the funding/legal lending limit situation.

Credit Related Conclusions
by David Morris, TechnoServe Credit Advisor

Five major areas of the credit process require attention at Nile Bank if the internal standards are to be improved and sound business loans extended.

Loan Underwriting

The Bank needs to follow what is known to be a useful Credit Policy Manual with standards which will result in approving collectible advances (or reduce extensions of new problem loans and overdrafts).

The critical identified weakness is the absence or failure to obtain and analyze historical or current financial statements of the borrower. Only when the bank is comfortable with the credit risk, which can only be fully evaluated with financial disclosure, will the delinquencies and loan losses decline.

Documentation (Collateral and Security Perfection/Valuation)

The TechnoServe recommendations paid off in results because the Bank began to determine where its position stood or was weakened by having an unperfected mortgage, a lien on property where the value was overstated by a surveyor or other irregularity.

Having reports in hand which quantified the problem for the first time, the Credit Department has a tool with which to deal with the problem loan or correct the imperfection by registration of the title.

The Bank should complete the attorney consultation project, keeping the security perfection issue as a critical element in a successful recovery strategy.

Loan Administration

It is too early to tell whether the administrative procedures put in place to monitor the portfolio will succeed or be sustained. The Credit Division faces a Herculean task because of its level of inexperience in collection work. The risk is that the smaller accounts and loans or overdrafts moving toward non performing status will not be monitored.

Lack of Officer Experience/Organization and Staffing

The bank needs to take steps to recruit experienced or aggressive collectors to work on problem loans. Factors necessitating this staffing addition include the number and size of non performing accounts, the additional loss which will be incurred if not worked, and inexperience of the junior officers. This leaves the Chief Manager, Credit and General Manager as the only officers with demonstrated collection skills.

The banking officers require additional supervision to ensure that they are evaluating the risks of new transactions.

Financial Reporting/Budgeting

Baseline Activity 2 identified the need for assistance in the budgeting and financial forecasting routines. TechnoServe was most successful in this phase of credit enhancement, working with the Chief Manager, Finance, on analyzing for the first time monthly or quarterly reports, and working together on the preparation of the African Development Bank application.

With the computer skills which the TechnoServe banking advisors will bring to Nile Bank, and the training given to the credit and finance sections, sustained improvement will occur.

OTHER ACTIVITIES

1. Relations with Bank of Uganda

In November 1993 Bank of Uganda decided after meeting with the Nile Bank Board of Directors and Management to place a Supervision Official in Nile Bank in order to monitor compliance with the written agreement signed on December 1, 1992. The stated objective was "to facilitate implementation of the measures designed to make the bank turn around."

Prior to the arrival of the BOU Supervisor, a meeting was arranged by TechnoServe management with him and the expatriate advisor to the Governor of the Bank of Uganda who had responsibility for this monitoring. The purpose of this meeting was to assure Bank of Uganda that TechnoServe was prepared to provide whatever support would be required to assist Nile Bank in its objective of making this into a positive, constructive exercise which would result in strengthening the bank, and to introduce the Supervisor/Monitor to TechnoServe Advisor David Morris who as a qualified bank examiner would be his principle interface from our project.

TechnoServe's assistance was arranged to provide timely reports on the loan review results, asset quality indicators, and appropriate credit related information as needed by the Supervisor/Monitor. It was expected that TechnoServe's expanded role would facilitate remedial measures to improve the internal credit process, a pre condition to successful recapitalization of the bank during 1994. In discussions with the Supervisor it was made clear by him that the need for new capital had been identified as a major regulatory concern.

TechnoServe responded to information requests by the resident supervisor, included him in appropriate meetings and training sessions, and with Nile Bank concurrence, provided him with the resources for his information requirements.

It had been expected that the Supervisor's findings would be incorporated into a report due sometime in 1994 from Bank of Uganda to Nile Bank Board of Directors and Senior Management. To our knowledge, there has yet to be such a report.

2. TRAINING

A. Customer Care Services

Network Ltd. a local consulting firm was engaged by TechnoServe to conduct a series of seminars for the bank's managers and support staff on Customer Care Services. The objective was to assist the bank in strengthening its customer awareness, customer relations, and customer services capabilities. The sessions started with the bank's Senior Management over a full weekend, and

then for other staff on consecutive Fridays and Saturdays.

B. Credit Officer Seminar

Management Advisory Services of Seattle Washington conducted a five day Credit Officer Seminar which was sponsored by USAID, hosted by Nile Bank and arranged and coordinated by TechnoServe.

There were twenty eight participants representing sixteen banks and financial institutions including four from Nile Bank. Through a week of discussions, instruction and active participation with the two seminar leaders, the participants learned up to date, applications for the basic financial and management techniques so critical to the successful performance of their duties as lending officers.

The seminar was opened with a welcoming address by the Chairman, Managing Director of Nile Bank, Professor Ephraim Kamuntu and the closing address and presentation of certificates was performed by the Director of USAID, Mr Keith Sherper.

C. Pre Lending Seminar

At the instigation of Mbarara Branch Manager Brenda Mukiibi, a Pre Lending Seminar was held at the Pelican Hotel, Mbarara on June 19, 1993 for prospective borrowers. Professor Kamuntu, Andrew Nsenga, David Munro, Bob Clark, Seth Rukurungu and Irene Ntanda travelled to Mbarara to address this seminar. Seth gave an accounting presentation and Irene gave a presentation on financial statement preparation. The seminar was very well received by the more than fifty attendees made up of local business men. Nile Bank hosted a luncheon at the seminar's conclusion.

D. TechnoServe Training Facilities

In addition to regularly scheduled credit seminars and other formal training events arranged by TechnoServe for Nile Bank's benefit, the well equipped TechnoServe training room has been put to good use by the bank's management and staff as follows:

- Frequent use of the training room for Nile Bank meetings and classes.
- Nile Bank's objective setting exercise and management reviews carried out in the training room.
- With the opening of a new branch at the Equatoria Hotel the bank held training sessions and management lectures for the branch staff every day after 5 p.m. for a number of weeks.

- The TechnoServe Banking and Finance Library consisting of forty books and training materials on various related subjects has been available to Nile Bank throughout the project.

3. Objectives

One of the initial favorable results of the above mentioned Customer Care Services Seminar was an awareness of the importance of the setting of objectives. The heads of the major divisions were asked to submit their objectives for 1994 and the Operations Advisor was asked to chair the committee to formalize the bank's objectives and put in place procedures for monitoring the accomplishment of each managers stated goals.

As the process moved ahead, both TechnoServe Advisors remained actively involved with Bob Clark as Chairman of the Objective Committee which was leading Management through the process, and David Morris providing valuable assistance in putting together the Credit Division objectives which then became the model for the other divisions. Both Advisors then participated in the review, negotiation and acceptance process between Senior Management and the Division Chief Managers.

This was Nile Bank's first attempt to formulate meaningful, quantifiable objectives at all levels and to institute a program of management based on mutually agreed upon goals. It has not been without its problems, but it did prove to be a very worthwhile endeavor. The bank now has in place its management objectives.

4. Human Resources

A. Performance Appraisal

TechnoServe has worked closely with the Chief Manager of Human Resources and Administration on the improvement of the bank's performance appraisal process including creation of new performance appraisal forms and providing guidance and instructions on appraisal, counseling and motivating techniques. The manual prepared for this purpose includes guidance on the measurement of performance against established, previously negotiated and agreed upon objectives, and also includes forms and instructions for the completion of position descriptions which can be utilized throughout the bank.

B. Human Resources Development Project

Several meetings were held both together and separately by both TechnoServe Advisors with a consultant from Swedecorp assisting Nile Bank with a training needs assessment and identification of improvement opportunities in the Human Resources

area.

In addition, Bob Clark participated in a two day week end workshop held at the Sheraton Hotel with the Nile Bank Senior Management Team and the Swedecorp consultant on a proposal for a formal Human Resources Development Project.

5. Re Capitalization

TechnoServe participated actively providing input, guidance and general supervision of the process for completion of an application for possible capital investment from African Development Bank. Working together with Nile Bank managers, the application together with a bound presentation book titled APPRAISAL INFORMATION ON NILE BANK LIMITED/BANK ANALYSIS - 1994 were compiled from current internal bank sources and appropriately updated excerpts from the 1992 Baseline Study. Included were complete and accurate numbers and reasonable assumptions as to portfolio returns and loan recoveries, together with a sophisticated 1994-1996 budget presentation.

Although prepared specifically for the African Development Bank application, this material will be retained by the bank and updated for presentation to future potential investors.

6. Financial Reporting

Assistance was provided to the Nile Bank Financial Manager by preparing for him a written analysis for his presentation to the Board of Directors of the final 1993 profit and loss forecast and the 1994 budget.

Further support was provided by recasting the budget into a quarterly format with assumptions such as cost of funds and net revenue from funds on performing and non performing loans.

7. Loan Classification

During the first full year of the support project the bank did not have the capability of carrying out the loan classification exercise required for regulatory reporting. Irene Ntanda, TechnoServe Project Advisor carried out three complete loan classification reviews during this period providing this very important data to the bank. She continued with this responsibility until a Credit Officer from the bank was assigned to the task, of course after being trained by Irene.

8. Customer Questionnaire

At the request of Senior Management, TechnoServe worked with Nile Bank in formulating a questionnaire to be filled out by customers in order to provide management with the input it requires

regarding levels of satisfaction, dissatisfaction, and enabling it to institute corrective actions where necessary.

Summary

Reviewing that which was accomplished during the two-year support project it is reasonable to say that each of the five original activities making up the base line study work plan have been addressed. In addition, by expanding its role when required, TechnoServe was able to meet and deal with issues not originally identified, but having surfaced, required action.

Even with the lapse of four months in 1993 when the project was without a Credit Advisor the combination of the work started by Mr. Munro and then followed through by Mr. Morris gave us the credit related accomplishment we were looking for. That which was not actually accomplished has been explained in the body of this report. The credit area reorganization was not completed as originally envisioned in the base line study. However, within Nile Bank the reorganization did take place from a functional standpoint with both the Credit Division and Investment Merchant Banking Division reporting to the Chief Manager of Credit. For its own future planning purposes and business related objectives, while Nile Bank recognizes the effectiveness of this set up, they intentionally do not want to make a formal change in the organization. There will be a place in the Nile Bank of the future for the two separate divisions.

Our one major disappointment has to be with the manufacturing and shipping delays for the armored vehicle required for Mobile Banking which has resulted in having to delay the launching of this new service originally scheduled for the second quarter of 1994. The plans, procedures, staff and training are all in place and everyone stands ready to get Mobile Banking up and running as soon as the van arrives.

With the latest scheduled arrival in Mombasa set for September 15, and with added pressure being exerted by Nile Bank Senior Management in Kampala and TechnoServe in the U.S. it is hoped that delivery in Kampala will not be delayed beyond late September or early October. Hopefully we will then be able to proceed with the limited extension agreed to by USAID, Nile Bank and TechnoServe to provide the technical support for the next four months which will result in this new innovative banking service becoming the success that we all want it to be.

As the project comes to an end and the question is what Nile Bank now needs to know and to do, the two words that come to mind are continuity and sustainability. Nile Bank now has documented procedures both operational and credit related, formal management objectives are in place, new performance appraisals and guidance for their use have been provided to Human Resources,

financial reporting and analysis has been improved, the Credit Committee is in place and a computer steering committee has been approved and is being set up, new loan documentation is in place, proposals for Human Resource Development and for Customer Service improvements have been made and the Systems/EDP Manager has been trained and provided the guidance and support that will enable him to deal effectively with the bank's information and systems issues after there are no longer TechnoServe advisors here to work with him.

A great deal of care has been taken throughout the life of the project to ensure that the required transfer of knowledge, skills and technology takes place. At every step in every study, proposal or process both Nile Bank Officers and the Ugandan Project Advisors were very much involved and are now qualified to assume these responsibilities.

For the project to be called successful, the responsibility to sustain that which has been accomplished now becomes the very important role of the management and staff of Nile Bank. Manuals have to be updated, procedures have to be enforced and compliance must be monitored, policies have to be followed, the Credit Committee must meet and effectively enforce the established credit policies, objectives as stated and agreed by management must be accomplished, Human Resources and Customer Service improvements have to be followed through, and the Systems/EDP Manager needs the continued support of Senior Management in creating and working through the Computer Steering Committee to ensure that the information and systems needs of the bank are adequately addressed both for the present and the future.

If the Nile Bank Support Project is to be called a success, it must be clearly understood that the work does not stop with the end of the project and TechnoServe going away, but must be continued and sustained now by Nile Bank.