Consultancy Report: An Assessment of the Activities, Controls and Potential of the International Business Relations Department of The Co-operative Bank Ltd.

Uganda: Cooperative Agriculture and Agribusiness Support Project
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CONSULTANCY REPORT

An Assessment of the Activities,Controls and Potential of The International Business Relations Department of The Co-operative Bank Ltd. Kampala,Uganda

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List of Acronyms

ACDI	-	Agricultural Cooperative Development International
CAAS	-	Cooperative Agriculture and Agribusiness Support
CCS	-	Co-operative Credit Scheme
IBR	-	International Business Relations Department
MIS	-	Management Information Systems
SCALA	-	a computer program
SIDA	-	Swedish International Development Agency
TC	-	Travelers cheques
UCA	-	Uganda Co-operative Alliance Ltd.
UCTU	-	Ugandan Cooperative Transport Union
UNIX	-	Unions Export Services,UCA
USAID	-	United States Agency for International Development
USh	-	Ugandan Shilling

Executive Summary

Uganda today presents a greatly increased opportunity to succeed or to fail as will be clear in the next year or two. The Cooperative Bank has the potential to succeed, but if it is to do so, it urgently needs to address a number of tasks - recapitalization, computerization, and reorganization into a much more proactive customer oriented business developer. International business represents a particularly attractive and growing segment of the opportunity, and a revamped IBR Department has an important role to play in the realization of the Cooperative Bank's potential. That role should not however encompass a foreign exchange dealing business, which business should be approached with care, and should be housed within a greatly expanded treasury function.

Background

At the request of USAID/Kampala, Uganda, ACDI,Washington,DC arranged for an international banking specialist to look into the systems for recording and controlling foreign exchange transactions in particular and the activities generally of the IBR Department of the Cooperative Bank in Uganda. This interest was prompted by questions arising from recent audits of the unit. The specialist provided, Craig Hammitt,Jr., arrived on January 6,1994 and departed February 15,1994.

A. The Current Situation
1. Generally

Uganda, lead by President Museveni, is a country on the move. There are new initiatives, and new investments. These reflect a new-found confidence, domestically and internationally, in the economy and the political environment, which is based upon the achievements and stability of recent years. This said, it must be remembered that although a great deal has been accomplished, still more remains to be done to even equal previous levels of productivity. All sectors of the economy continue to carry heavy burdens from the past. This is particularly true for the banks generally, and the Co-operative Bank in particular.

2.The Banks

The enactment of new legislation in October of 1993 liberalized the rules governing the activities of the banks, and marked a sharp reduction of the role of the Government who is firmly committed to an open and freely-competitive economy. It is quite simply a new game with new rules for a new Uganda. However, along with the new opportunities come new risks. Weaker players may not be up to the rigors of competition, and so see themselves increasingly left behind, or worse.

To prosper in this new world it will be necessary to be highly focussed and disciplined. This is particularly true for indigenous banks who do not have access to the resources of their international competitors, and so need to concentrate their energies in areas of relative advantage while rigorously controlling cost.The truth of this is suggested by the apparent niche strategies of several new institutions presently in formation. Interestingly, the area of international business and trade finance is commonly identified as one of particular attraction.

3.The Co-operative Bank

For the Co-operative Bank, this changed environment adds a new dimension and urgency to the already substantial challenges that it confronts. As it seeks to break free of the past,not only does it need to respond to its new environment, the Bank also needs to escalate and accelerate the attack on a number of long-recognized and long-outstanding problems while redefining its role and mission in the new Uganda.This is necessary for its commercial success as well as to ensure the continued support of various international agencies. It will not be easy, but failure to achieve any of these goals could jeopardize the continued existence of the institution. That is the stark reality. That is the challenge.

The heritage of the past is to be found in a the high cost structure that stands in the way of profit, a bureaucratic culture that impedes timely response to changed circumstances,and an internal organization that lacks a several basic elements such as a proper treasury and a MIS department. The absence of these rather critical units seriously hinders managements ability to manage intelligently. More positively, that same heritage gives the Bank a unique position in and a potentially powerful set of relationships with the dominant and economically important agricultural sector and the Cooperative Movement. A program that attacks the weaknesses and builds upon these strengths is a program that can revitalize the Bank and restore it to a position of pre-eminence in the financial sector of Uganda.

4. The IBR Department

For the reasons touched upon above and expanded upon below, the IBR Department has the potential to become a meaningful contributor to the Bank's performance. At present, although it offers and is capable of delivering a range of international business products, as a practical matter, the bulk of their business is concerned with outward clean collections, money transfer, draft sales and traveler cheques. Substantial untapped opportunities exist in the area of outward documentary collections,ie. export bills, letters of credit, and trade finance.

Concern exists with regard to the adequacy of the Department's internal systems,procedures and controls. This concern was prompted by several problems that arose as well as certain frictions between the Department and the rest of the Bank. Much of the basis for those concerns no longer exists, or in some instances never existed.The Department's existing systems are quite basic, but adequate to document its business. These were the subject of a recent external audit, and, although the final report is not yet in hand, the impression is that it went well. This said, there is no written procedure manual,nor are there any information systems in place. This and a number of other aspects of the Department need to be changed as outlined below. When fully effected, the result will be a tighter, focussed and more effective international business generator.

B.Actions to be taken

The list of tasks to be done in realizing such a program is long and daunting. Each is more urgent and compelling than the next, but logic and limited resources require that the tasks be prioritized, and that a genuine time-framed action plan be agreed upon and started ASAP.

1. Role and Mission

For the particular reason of the Co-operative Bank's history and ownership, the question of the role and mission of the Bank going forward is actually the most compelling task at hand. This is not a new topic. Indeed the Bank has already refined somewhat its mission, its role, and its relationships with its owners, its supporters, its customers and prospects, and the Government. What is called for here is a strengthening of the resolve and renewed commitment to this, backed by a business plan for success in the newly liberalized world that is banking in Uganda today.

As is well known, the Bank since its inception has been seen to be the de facto or quasi,if not de jure, public sector lender to the large and vitally important cooperative segment of the agricultural community. The Bank serves the needs of farmers both directly and via the Cooperatives, who are also its owners. Indeed, in many of the outlying regions, it is the only bank interested and in a position to serve the needs of the smallholder who is the backbone of Ugandan agriculture, and the Cooperative Movement. As such it frequently undertook business that pure commercial logic would have refused. It did so in fulfillment of its role and for the good of the cooperative sector. It also did so to its detriment, as it became lumbered with an uneconomic cost structure, a weak customer base, and an unattractive product line that made earning a profit difficult under the best of circumstances. Times past in Uganda were not the best of circumstances, and these problems were exacerbated by credit, crime and management factors that left unchecked would have undoubtedly culminated in the collapse of the Bank. That this did not happen is the direct result of the intervention and support of several donor groups, notably SIDA, and more recently, USAID, and the hard work of a largely revamped management team. However the Bank needs to put in place a plan of action that will enable it to become a self-sustaining institution within a reasonable timeframe.

1.a. Restructuring Plan - defining the Mission

The problems and needs of the Bank have been the subject of repeated and generally well done studies by a variety of consultants whose observations and recommended actions have been accepted and agreed. This said, actions or inactions of the Bank, as distinct from words, suggest that either the agreement was not as complete as indicated or the consequences of the actions were not fully appreciated by all parties or that the resolve to move forward has weakened. The Bank has achieved some retrenchments of staff and other cost reductions, but more fundamental attacks on the very high cost structure have been frustrated <witness the disappointing branch closing effort>. The result is that losses continue to erode the capital base of the Bank, albeit at lower levels as a result of a successful bad debt collection effort, and improved expense management.This is neither desirable, nor necessary, and if,as is presently intended, USAID is to inject substantial new funds into the Bank as a part of a recapitalization and reconstruction effort,it must be stopped. USAID has made it very clear that it does not, indeed in today's resource-scarce world, it cannot underwrite ongoing loss-making operations. As the Bank must be recapitalized to come into compliance with minimum mandated levels much less have the commercial vitality necessary to succeed in today's competitive market there is really no choice but to embark upon a serious broadbased effort to refine - prune all aspects of the Bank's activities with an eye for profit and continued service to the agricultural sector of the new Uganda.

The existence of the Bank depends upon the design, and more particularly, the implementation of a commercially driven restructuring program that likely would involve branch closures, product and program elimination or redesign, and as a practical matter the withdrawal from certain unattractive sectors of the market. Every aspect of the Bank must be scrutinized - evaluated from a cost/benefit perspective, and where possible lower cost solutions explored.Target product and customer profitability standards need to be established and enforced. A new profit-driven marketing culture needs to be taught with senior management in the lead. That such a plan may not be well received in some constituencies is undoubted, but it cannot be doubted that such an undertaking is vitally necessary. As a contingency plan, it would seem wise to provide for the eventuality that the Bank may not be allowed to withdraw from or substantially reprice various unattractive lines of business.It should therefore draw up a bill covering the price to be paid to the Bank which will allow it to recover its costs and earn a modest profit.
There is however a practical problem with this and other programs in that the present information systems of the Bank are not remotely up to the task of providing senior or any level of management with the necessary inputs to equip them to make educated decisions in a timely manner.

2.Automation

The above observation leads to the second most compelling requirement, which is the absolute necessity of putting in place a fully documented, automated system of internal procedures and controls supporting clearly delineated policies, and feeding management information systems that will facilitate the development of strategic business and product plans, allow for the establishment of a risk management function and fuel a performance tracking system that can form the basis of a market driven dynamic budgeting process. A recent study <Bauer,11,93> looked at the automation requirements in detail and provides a framework for going forward. This process should be initiated at once as the lead times are considerable.This particularly the case given the need to comply with the regulations of USAID governing the procurement process. The need is to get on the road. The need is not optional.The need is now.

Although, as noted above, the most professional and comprehensive design and more particularly implementation and management of a sweeping restructuring plan is dependent upon management information systems that can only be derived from a fully automated operation, the Bank cannot afford to wait. Thus an expanded effort must be made to hammer out, at a minimum, the broad framework of a plan, and with that in hand seek to reaffirm the commitment and support of all relevant parties to the vision and direction of the Bank as expressed in the plan, or to pay the bill. The consequences of the withholding of support should be a feature of this presentation. Actions and inactions have consequences. Everyone needs to be as clear as possible on this.

3. Other Initiatives Required or Continued

In conjunction with the above, it goes without saying that the fruitful efforts targeting bad debt collection and or credit quality upgrading must continue in full force, as must stringent cost control. However these efforts, which are largely past or present oriented, should be complimented by new efforts in the area of product management and sales/marketing which are future oriented, and which if successful will become the basis of a resurgent and profitable Cooperative Bank.

4. IBR - the beginning of a new bank

For several reasons the situation presented by IBR lends itself to becoming the beginning of the bankwide revamping process, and can serve as an example and testing ground of what is intended and how to go about it.

a. Why IBR?

As noted above, the Bank needs to embark upon a program of cultural change as well as structural strengthening to position and equip itself to take advantage of the opportunities presented by the recently liberalized world of Ugandan banking. It is particularly opportune and attractive to begin such an undertaking by reshaping and redirecting the IBR Department.

1. It is timely. At present, there is a leadership vacuum due to the misfortune that befell the department head. This then provides an opportunity for a new/fresh start, and the ability to introduce new leadership and new plans without the need to convert the former management. Further, the dramatic changes underway in the market create a demand for a new approach, a market-driven, customer-oriented approach that can be a source of new-found pride and profit, and which represents a very real and substantial expansion of service by the Cooperative Bank to its customers.The benefit of such an effort can extend well beyond the boundaries of IBR to the

Bank as a whole. This is the famous halo effect, a very powerful form of advertising.

2. It is relevant and important, internally and externally. IBR in many ways can be seen as representing a microcosm of the Bank in that it has no written, orderly operations/procedures manual. Neither is it computerized. It is inefficient, though hardworking, and lacks a clear sense of what business it is in. It is a passive, reactive and bureaucratic structure. It needs to break out. It needs to define it businesses, its target customers. It needs to take charge of its destiny. It is a relatively young and relatively small department. It is free of the bad debts that cast shadows over many other areas of the Bank; indeed it is profitable.All of this suggests that it represents a manageable starting point for such changes.

Although the Department may be small, the potential of the market is not. The most current statistics available are those for 1992 which indicate a trade sector of $639 mm,ie.export and import volumes. The impression is that current levels are some 10% higher. If one assumes an intermediation charge, excluding finance, of 1% this implies a potential income to the finance sector of $7mm. If one further assumes a Cooperative Bank share of 5% of the market, the then earnings potential is $350m. In fact the earnings were $250m so clearly there is room for growth The liberalization that has begun to transform to banking sector is matched by similarly major changes in other sectors of the economy. A bank that understands and responds to these developments positively and creatively will enjoy a good reception by its customers, and realize a growing share of a growing market. This is well understood by competing institutions, and ,as noted above, is attracting the notice of new entrants who seem likely to make international business one of their key targets. The bank who delivers will be perceived by the customer as a true partner bringing insight and service, in a word value.

The IBR department is an excellent organizational focal point to bring together in an effective and powerful way the unique advantages of the Cooperative Movement and its organisms. It can focus the strengths, capabilities, knowledge and position of entities such as UNIX, UCTU, and the major exporting Unions on the very real and growing need of customers for assistance in the area developing and facilitating international business. This special relationship should be the basis of a differentiated and focussed marketing strategy that delivers value to the customer and profit to the Bank.

b. What is the Role of IBR?

In its broadest sense, the role of IBR is to facilitate the international business of its domestic customers and the Ugandan business of its international customers while earning an acceptable return for the Bank.It does so by designing and delivering selected groups or families of products that are responsive to the international business requirements of selected customers. There are two basic product groups: credit and non-credit or service. Credit products are various forms of pre-export, export and import finance including letters of credit, guarantees and bonds, and foreign exchange. Service products include traditional services such as money transfer, sale of drafts and travellers cheques,collections and current and deposit accounts, as well as advice and assistance in trade development and credit information. For these families, the Department has absolute product responsibility, ie. capacity, service quality, pricing and sales. To successfully fulfill this responsibility it, assisted by other areas of the Bank, needs to remain in close touch with the market, both customers and competitors, both domestically and internationally. This market intelligence input is critical to the timely identification of product developments, need patterns, and competitive threats that will allow the product offering,service standards pricing, or sales focus/effort to be adjusted for maximum effect, offensively and defensively.In a static world this need is not so important, but Uganda today is not such a world. The consequences, good and bad, of the liberalization of the economy have only begun to unfold.

c.Customers, who are they?,who should they be?
If one looks at the business of the Department today, it can be seen that the customer base is limited to a relatively small number of exporting cooperatives, forex bureaux, and Cooperative Bank branches. In fact more than half of the business comes from customers of City and Wandegeya branches. It is too narrow a base to provide a reliable and significant contribution to the profits of the Bank.It needs to be broadened, and deepened. Also the concentration of business presents sectoral risk that could be worrying. For the most part however, the existing customer base should be seen as a starting point for a much more proactive sales effort, although I would note that there are several retail foreign currency current accountholders who should be encouraged to leave or to put their relationship on a more commercial footing.
This then raises the question of definition of an attractive customer, who is he, where to find him, and, the most difficult question of all, how to make him a customer of the Bank. As an aside, I would note that the need to define attractive customer and good business is far more compelling in the Bank proper than in IBR.
It is easy to outline the dream customer- financially-strong exporter or importer with a regular and substantial need for assistance whose average transactions are clean and of good size, and who is more concerned with service than price. The problem is to set definitional standards that will allow the marketing officer to determine the true attractiveness to the Bank of a given prospect or piece of business, and to allow intelligent pricing to be set. Until the Bank can supply the necessary MIS this task will be difficult at best, as intelligent pricing suggests a reasonable sense of your costs, and a feel for fixed and variable components of those costs.This is not presently the case, nevertheless you have to begin someplace.
Traditionally the Bank's business has been heavily on the side of serving exporters, principally several of the larger Unions. One of

the goals going forward should be to develop a more balanced book of business, ie. with importers. This will enhance the Bank's view of the market, and broaden the market's view of the Bank. The better intelligence should allow for more a finely tuned sense of evolving costs. Further it can hold the prospect of being active on both sides of a market thereby earning or retaining more of the inherent profit in a transaction. The purest example of this is in foreign exchange when a bank is able to match buyer and seller in-house.It also may give the bank a capacity to perform when the market itself moves seriously out of balance as has been the case recently in Uganda. Another aspect of the tradition of the Bank has been the relatively small average size of many of its relationships, although this is less so for IBR. In the shift to a proactive marketing mode a particular emphasis should be placed on those prospective customers who represent potential fee income of at least Ush 5mm, perhaps even 10mm. This implies an international volume of $1mm. As the marketing effort gets underway these standards will be refined and revised as will other aspects of the program.

Implicit in the above is the assumption that the recapitalization of the Bank takes place as planned. This is vital for many reasons, not the least of which is that under current regulations the Bank would be barred from serving the credit needs of the larger and generally more attractive customer due to legal lending limit constraints.

In addition to major exporters and importers, several other categories of customer should be noted for attention. These would include entities who serve the international sector such as S.G.S., freight forwarders, courier companies, law firms, accounting firms and transportation companies. Some may be attractive in their own-right, but their real value is as a source of information and potential business referrals. If they are impressed with the service and professionalism of the Bank they may direct good business in our direction. NGOs and their related project managers also represent IBR business potential. Lastly, there are two categories of financial intermediaries who represent the potential to be both customer and service provider: forex bureaux and overseas banks.The former have already been noted as being a part of the existing customer base of IBR, while certain of the latter act as correspondents of the Bank. It is clear that the forex bureaux have in place some elements of the proactive customer service oriented culture that the Bank needs to adopt. It is also clear that these are adaptive flexible entities who are inclined and are able to respond to the forces of the market in a way and with a speed that larger more bureaucratic institutions find difficult. Just as the banks will need to change, so too will the forex bureaux. Some may disappear as their traditional fx role is simply absorbed by commercial banks, while others may tend to evolve in the direction of becoming more nearly like a commercial bank. Although,it may be noted that they are not commercial banks, nor are they regulated in the manner of commercial banks. I would suggest that the Bank consider at least some of these entities as

in a sense business partners, and that a conscious effort be made to unite the different, but complimentary strengths into a coherent plan of action to mutual benefit. Clearly these entities have developed effective ties with many parts of industry and government which can be glimpsed by looking at the business which presently flows through our existing accounts. The basis for a closer cooperation already exists in IBR as it has established several quite close relationships. These should be deepened and expanded in number.There is an untapped potential here.
Another area of untapped potential is that of correspondent banking. There is a potential on several levels that needs to be explored. At present the Bank maintains nostro account relation- ships with institutions in Scandinavia, Germany, the UK, and the US. As is usually the case these relationships came into being for a variety of reasons, good at the time, but perhaps less or no longer so now. The principal function, indeed in most cases the only function, is to execute/ facilitate the Bank's needs of service in their home market, principally the paying and receiving of money.A traditional aspect of correspondent banking, reciproci- ty, hardly exists. With the exception of payments emanating from Midland Bank available at the counters of the Cooperative Bank, there is no inward flow of business directed by the correspondents. Whether this is due to a lack of need or a lack of desire or a lack of knowledge of the interests and capabilities of the Bank is unknown at this time, but should be explored as a part of the marketing plan. Also alternate suppliers of service should be considered as the Bank seeks to improve the scope and quality of the service while lowering its cost. As the Bank moves toward a more fully automated state the availability of comprehensive product packages accessible and deliverable via direct computer interface becomes relevant, and must be considered in the evalua- tion of a relationship Note, the provision of finance or credit facilities for LC confirmation or refinancing would be included in this relationship although it raises credit and treasury adminis- tration questions that will need to be answered. The Bank has got to become a better buyer of service. Lastly, consideration should be given to selective expansion of the Bank's correspondent relationships into new markets that are relevant to its market- place. The recent visit of a trade mission from India highlighted the growth of trade with Uganda, as the role of IBR is to interme- diate trade flows profitably, consideration should be given to establishing a relationship with say State Bank of India who may not wish to direct its customers to the Bank of Baroda, a competi- tor.Other overseas markets may also hold attraction, for instance neighbors like Kenya, or "sister or kindred" institutions such as the cooperative banks and agriculture banks of other countries.

d. Products

The basic line of credit and non-credit products is sketched out above, and in themselves are fairly straightforward. However it could be said that the real product is service, and that the key to success is to be found in the marketing of the product, the delivering of value to the customer. To be effective in this it is critical to understand the customers business, to be able to look at things through his eyes so that the capabilities of the Bank can be brought to bear upon his needs, frequently in creative ways. To be able to do this requires an endless curiosity, bordering on obsession, about all aspects of international business, and in particular the businesses and markets of your customers. A collateral benefit of this knowledge is a better understanding of the risks of a particular business, and hopefully a better avoidance of those risks by the Bank.

e. Staffing and Training

The staffing of the marketing/sales function of the IBR Department is obviously rather critical in a proactive business development mode. Effective and successful representatives will need to be at once a generalist with a very outgoing optimistic can-do frame of mind, and a detail-orientated, professional, a specialist. They need to be good students and good teachers. Strong team players, but independent and self-reliant. They need to be absolutely competent in their product knowledge, and conversant with the products of their competitors. They also need to be current on market developments, and as previously noted should have a good grasp of their customers business.
A great deal of the responsibility for achieving these objectives must rest with the individual, however an important compliment to this should be the periodic attendance at external courses. This investment by the Bank should carry with it an obligation on the part of the recipient to share the knowledge gained. This sharing should take several forms, training of fellow members of the Department, the education of fellow officers throughout the Bank, and perhaps the giving of seminars to groups of customers/prospects.

f. Organization and Related Issues

The present IBR organization needs to be rethought. Indeed to call it an organization is in some respects an exaggeration. The staff of 9 is organized along task lines with the result that available resources are not always efficiently utilized. Further the staff evidence modest understanding of or interest in the true business of the Department. In fairness it must be said that they are immersed in their processing tasks, principally documenting or otherwise handling draft/TC sales, collection and money transfer matters, and are therefore given little opportunity or encouragement to take a broader view. For the reasons noted above this should be/must be changed. A subset of IBR is the Forex Bureau of the Bank with a staff of 3, which reports to the Manager IBR, although located on the platform of the main City branch. The role going forward of a bank owned bureau is even less clear than that of an independent bureau, and it may be that the resources involved in

this activity can be redeployed to better effect without impairing the service offered.
To achieve the proactive customer service oriented unit that can lead the business and the Bank forward, I would suggest consideration be given to a reorganization along the following lines:

The Department should set up as two basic units, the so- called front and back offices, or marketing and operations. Let me immediately add that these two units need to be closely linked in every sense given the very operational nature of classical business. Also as has been noted, service is the principal product of the Department, and detailed product knowledge is a vital component of an effective marketing officer. The linkage is strong. The operations arm of the Department should be relocated to the ground floor of the building and run as a unit within the existing processing area of the City branch.This will facilitate a far better use of resources in that it will provide a flexibility to cope with varying flows of business as well as increased flows of business, and make better use of space. It will also result in the exposure of the products and their servicing requirements to a wider number of staff who may evolve into future marketing officers. Lastly, by splitting the activities of the Department into two units you can achieve an inbuilt set of checks and balances that lessens the chance of problems. The marketing unit of the Department should be staffed by 2-3 officers who would probably be lead by the Chief Manager, as in this new world the leader is always the chief salesman.These officers are primarily responsible for increased revenues earned by pricing and selling more and better products to more and better customers in accordance with the guidance given by the Chief Manager, and the departmental procedures manual. They are also responsible for the training of their fellow officers, particularly in the branches, who become their allies and agents. This training would principally take place during periodic visits to the branches,which visits would also be for the purposes of agreeing joint sales plans of action, and the calling upon targeted customers and prospects or the closing of a trade deal initiated by the local officer. Lastly there is the universal requirement to gather competitive and market intelligence, and to suggest new product variations or better delivery systems.
The operations unit or section of City branch operations would have a dedicated staff of 4-5 who would be the principal interface with the marketing officers and the customers of the Department.They would be senior product specialists and be responsible under the direction of the Manager for the quality ,integrity, and costing of products sold, and for the protection of the interests of the Bank. They would be supported by the various existing operational units within City branch in regard to the documenting the business of the Department on the books of the Bank.
The newly configured department should not be responsible for the actual purchase and sale of foreign exchange, although clearly they are and should remain active in the sale of foreign exchange products, and should become active in the sale of products which

have fx exposure elements, ie. finance of exports/imports in foreign currencies, uncollateralized letters of credit, and the like.The actual dealing in the foreign exchange markets as well as the management of the Banks exposure position should be the responsibility of the Treasury who increasingly has an important role in the liberalized environment of Uganda.The IBR is responsible to inform the Treasury of all events that affect the exposure of the Bank, and to obtain from them prior clearance as appropriate. At this stage in the life of the Cooperative Bank I firmly believe that the Bank should limit itself to customer business, which is to say it should not engage in speculative dealings for its own account. Foreign exchange dealing is a highly automated and technical business that depends heavily upon large quantities of timely information. No such information exists at present in Uganda, nor does the Bank have in place MIS that would enable it to make use of it if it did. The Bank has quite enough to do at present without expanding into such areas. This is something that can always be revisited at a later date as times and circumstances change.

g.Some Issues Going Forward

As the IBR move to implement it marketing plans, the question as to how and where to house the relationships developed begins to be an issue. At present IBR does not have credit relationships, although credit for outward collection items in advance of cover clearly represents an exposure, however if as I hope the business and productline grow this will change. For instance if the Bank begins to discount coffee export bills where does the credit risk truly lie? If it is without recourse to the exporter, the most attractive from the exporters point of view, then clearly the credit is with the importer or if relevant his bank. If however it is with recourse, the principal repayment point has not changed, and you could take the view that the recourse was similar to collateral to be looked at in the event of failure of the primary source of repayment.The question of correct pricing, particularly in a competitive context, becomes relevant as a part of the price is a risk premium.
Similarly, going forward, who is responsible for obtaining and managing credit facilities from foreign institutions? On one level such facilities become a resource of the Bank, and should be managed by Treasury, while on other levels they are a part of correspondent bank relations accessed by routine funds movement over the Banks nostros, all the province of IBR. Of course it is appropriate to recall that at present the Bank does not have anything which could remotely be called a Treasury. As the newly liberalized banking sector shows every sign of increased competition and volatility, this lack poses genuine risk to the Bank. This is recognized and steps are underway to put in place a unit. Also the question of import finance, presently an underdeveloped area for the Bank, is to be considered, for straight finance is simply local finance.

However in these cases there are product and service issues and opportunities that involve IBR, money transfer, letters of credit,foreign exchange, etc. None of these things are major issues, but should be kept in mind.

h. Schedule of Tasks and Timeframe

If a plan along the lines sketched out above is agreed, it can be implemented with minimal delay and modest cost.Several initiatives are already underway would benefit from such a reorganization.

i. the IBR is now hooked into the SCALA system of the Bank, and a mode of implementing a multicurrency set of accounts has been agreed. The City branch is already on SCALA, so a move there will expedite and reinforce this effort. A reasonable target for producing a proper set of accounts would seem to be the end of the first quarter or end April at the latest.

ii. the Department has begun the process of writing up a manual of their policies and procedures, and while the initial efforts are not all that one might hope it represents a useful beginning.It also has a further benefit of causing the employee to reflect upon his job. The intention is to produce a manual that can then be reviewed by Coopers & Lybrand rather than have them actually author it. There is some possibility that this effort can be greatly expedited to the enormous benefit of everyone by obtaining a copy of the recently written manual of another Ugandan institution, which effort was underwritten by USAID. I would note that the Department does have quite well developed procedures. They simply are not documented, nor as a practical matter auditable. The target for this is somewhat dependant upon the ability to access this other manual, failing that IBR can produce a respectable manual not later than May, 1994.

iii.A long running and vexatious problem has been the absolute nonsense associated with reconciling a number of the accounts of the Department, in particular the nostro accounts of the Bank. This condition has existed since the beginning of the Department, but has been exacerbated by movements in the foreign exchange markets that were not reflected properly over the accounts of the Bank. In turn this has given rise to the impression that it was a Department not fully under control. As a result The Department has been the recipient of audits, and the target of Board of Director mandated task forces, which although they highlighted several areas that quite definitely needed tightening up uncovered no grievous problems. Subsequently, I have requested the Chief Accountant's Office to provide IBR with a proper set of opening balances as of yearend 1992. With that in hand the Department can provide and should be held to provide a "good" set of books. This is to be done before the end of February. I have also suggested that the Bank's policy for reflecting foreign currency assets and liabilities be revisited with Coopers & Lybrand, as the present policy of revaluing annually is inadequate. Lastly, one of the items or events surfaced by the Task force in October was the loss of some $160,000 in drafts, cheques, and travellers cheques on March

5,1993. Puzzlingly this event did not seem to attract the attention or notice of anyone until that time, and not a great deal since. After a brief investigation, I am happy to report that in all probability the loss to the Bank will be no more than modest, if that. I can explain if not fully understand some of the recent delay, but I cannot explain the original delay of over 7 months. The items were stolen. This is clear. Where and by whom is not.The matter is now with the police. That such a thing could occur and not draw the attention of the responsible party, who was subsequently shot in an apparently unrelated incident, strains my imagination.

iv.Training and in a sense retraining of the personnel of IBR, as has been noted elsewhere, is an absolutely critical element of the program for the creation of a new IBR, and ultimately of a new market focussed, market driven Bank.To that end substantial time has been devoted to product training, and marketing in a formal sense, and in an informal sense even more time has been spent trying to break down the rigidities, the bureaucratic barriers that stand in the way of a much expanded vision. There is a long way to go on this but the effort looks like being fruitful. Also plans are in place for several key members of staff to attend seminars both in and out of country.The Bank is fortunate to have some excellent people involved with the business of IBR. Indeed a U.N. consultant who recently spent time with the Bank observed that he was by far the most impressed with the individuals at the Bank.

v.Lastly, lower cost and or more efficient solutions to the needs of the Department are currently being explored, principally in the area of the Bank's overseas correspondents. This area alone represented roughly one third of the costs of the Department ex salaries.It is hoped that some improvements can be in place by the end of March.

i. Costs/Results/Benefits

A very rough cut at a budget suggests that much of the new program can be achieved with only modest increases on the actual levels of 1993. No staff increases are presently contemplated, to the contrary. This however represents an appreciably higher number than is presently in the 1994 budget. The budget number is USh 46.2mm, while the actual is USh 111.8mm. There does not appear to be much fluff in the 1993 number, indeed a number of elements are directly business volume related such as telephone and telex, and correspondent bank charges, with the result that as the business grows so to will these charges. Those two items alone represent 50% of total expenditure.Thus we should anticipate an expense level at least similar to last year. The good news is that the budgeted income levels are likely to be too low. Indeed the budget of USh222.0mm hopefully is far too low, as the Department actually realized USh251.7mm in 1993, and seems capable of realizing in excess of USh300mm without taking into account any loan income, and with loan income could easily exceed USh400mm.

If the vision is correct, this useful uplift to the Bank's performance will only be the beginning. The Department's real role is to be an agent of change - to be the beginning of a rejuvenated and revitalized institution. There is a great deal to be done, but it can be done, and it is worth doing, but we have on with it, now.