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Consultancy Report: Restructuring and Recapitalization of The Cooperative Bank, Ltd.

Uganda: Cooperative Agriculture and Agribusiness Support

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Consultancy Report

Restructuring and Recapitalization
Cooperative Bank Limited
Kampala, Uganda

Project Name: Uganda CAAS (Cooperative Bank-Branch Operations)

Project Code: #110-15-710

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List of Acronyms

ACDI - Agricultural Cooperative Development International

BIS - Bank for International Settlement, Basle

BN - Billion

BOU - Bank of Uganda

CAAS - Cooperative Agricultural and Agribusiness Support

CBL - Cooperative Bank Limited

CCS - Cooperative Credit Scheme

DGM - Deputy General Manager

DM - Deutsche Mark

GAAP - Generally Accepted Acounting Principles

GBP - Great British Pounds

IBR - International Banking Relations Department

KES - Kenyan Shillings

MD - Managing Director

MM - Million

NOK - Norwegian Kroner

SIDA - Swedish International Development Agency

SWK - Swedish Kroner

UCA - Ugandan Cooperative Alliance

USAID - United States Agency for International Development

USD - United States Dollars

USH - Ugandan Shillings

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SUMMARY

BACKGROUND

At the request of the United States Agency for International Development (USAID) Kampala, Uganda, Agricultural Cooperative Development International (ACDI) dispatched a banking consultant to Uganda.

FOCUS & OBJECTIVES

The focus of the consultancy was the creation of recapitalization and restructuring plans for the Cooperative Bank Limited (CBL). The fundamental tasks of the consultancy were as follows:

1. Review the proposed recapitalization and restructuring plans proposed by Richard Neis in September 1992 and reaffirm consensus on the suitability of the approach and its objectives among the key institutional players - CBL, USAID, UCA and ACDI;

2. Review and analyze the latest long-term financial projections of the bank to ascertain their accuracy and estimate the future capitalization requirements necessary to achieve consistent earnings growth;

3. In collaboration with bank management and advisors, prepare a detailed implementation plan, including timetables and individual staff responsibilities, for the recapitalization and restructuring of the bank in order to achieve the objectives agreed to among the parties.

CBL OVERVIEW

CBL is a publicly held commercial bank servicing clients engaged in agriculture, agroprocessing and commerce. Its shareholders are comprised of 30 fully paid investors, 11 partially paid investors and 120 associates. The bank was established in 1964 but commenced business in 1970 because of funding difficulties. Today it has 23 branches throughout Uganda and 539 employees, of which 190 or 34.6% are assigned to headoffice and the main city branch. CBL is technically bankrupt. As of 31 December 1993 unaudited financials the bank's asset size was Ugandan Shillings (USH) 25.9BN (indicative rate 1 March 1994, USH1000=USD1) while the bank's liabilities stood at USH31.5BN.

The aforementioned institutions have decided to recapitalize rather than liquidate for two main reasons. First, to continue to provide support to Uganda's cooperatives, agribusinesses and farmers. The country needs an agricultural bank as agriculture is the main source of foreign exchange (about 96%). It is thought that restructuring CBL will be more effective than opening a new agricultural bank. Second, CBL holds 6% of demand deposits and the banks failure could undermine confidence in the nation's banks.

RECAPITALIZATION & RESTRUCTURING

Recapitalization should be undertaken in a phased approach. This strategy should motivate the bank to take the restructuring action necessary for the institution to be viable on its own and induce shareholders to increase their capital contributions, currently USH143MM. Injections of liquidity should made in three tranches if management has achieved specific goals relating to: headcount reduction, cost reduction, revenue generation, reorganization, branch closure, treasury, write off of nonperforming loans and improved performance of the portfolio as well as the aforementioned capital increase to come from Ugandan sources.

Based on historical data, 1994 projections, and discussions with BOU, CBL's current recapitalization requirement is USH15.85BN. This is in excess of available funding which currently stands at a total of USH12BN (USAID PL-480 - USH10BN, SIDA - USH2BN). Subsequent to capitalization of USH12BN, there will be a shortfall of USH3.85BN.

Restructuring goals, strategies, timetables as well as assignment of tasks are outlined in this document as are the quid pro quo injections of liquidity to be made if the goals are achieved. These have been discussed with local senior management on numerous occasions. Should the timetables elucidated on later in this report not be adhered to and subsequently goals not met, a moratorium on further funding should be declared until such time as management can become current in regards to its achievements.

AUTOMOBILES

This section advocates reduction of the bank's fleet of vehicles by 11. The annual savings would be USH71.5MM.

Costs related to the maintenance of the bank's fleet of vehicles are substantial. CBL can significantly reduce expenses. Currently the bank maintains 36 vehicles, assigned as follows:

Individuals		
Managing Director	2	
DGM Admin	1	
DGM Credit	1	
Bank Secretary	1	
Chief Accountant	1	
Chief Auditor	1	
Manpower Manager	1	
Security Manager	1	
Former Chief Auditor	1	
Subtotal		10
Departments		
Audit	1	
Credit	2	
Subtotal		3
Branches		
Arua	1	
City	1	
Gulu	1	
Jinja	1	
Kasese	1	
Mbale	1	
Mbarara	1	
Subtotal		7
CCS		2
Pool vehicles		11
Bullion vans		2
Escort for bullion van		1
GRAND TOTAL		36

Expenses relating to the bank's fleet appear on the bank's budget as:

Code 700600 Petrol, Oil and Service of Vehicles - Expense USH164MM
Code 700700 Repair of Vehicles - Expense USH70MM

The total cost of maintaining the fleet is USH234MM. With 36 vehicles the average cost per vehicle is USH6.5MM. The average age of the bank's vehicles is 7 years.

RECOMMENDATION, SAVINGS, ACCOUNTABILITY AND SCHEDULE

One pool vehicle should be allocated for use by the marketing department.

One additional pool vehicle should be allocated for use by the audit department.

Former department heads are not eligible for autos.

Remove car in Mbarara and replace it with a bullion van.

The pool should be eliminated.

Adopting the above measures will reduce the bank's fleet by eleven vehicles. The yearly cost saving will be USH71.5MM. N. B. Savings will also be realized as the result of a commensurate cut in drivers.

Selling redundant pool vehicles will also assist in reducing the bank's budget deficit. Older vehicles should be sold first. Current book value of redundant vehicles is USH12.5MM. Market value may exceed book value in Uganda, hence the bank will realize in excess of USH12.5MM from the sale of these vehicles.

Administration should complete this assignment by July 1994.

BRANCH NETWORK

This section discusses closure of two CBL branches, Ishaka and Wobulenzi. This will result in a net savings of USH83MM yearly.

The branch network currently consists of 23 offices located throughout the country. A quantitative review of each branch was made. Total operating cost was contrasted with operating revenue for both 1993 and 1992. Considering the fact that the bank is technically bankrupt the purpose of this review was to determine which branches were losing money and therefore which branches could be cut, thus reducing operating cost and improving net revenue. In addition, the percentage funding contribution of the branch to CBL's total demand deposits was taken into consideration as was branch location and proximity to other branches and the client base. Lastly, competition was taken into consideration, looking at whether there were other banks operating a branch in an area.

BRANCHES OPERATING AT A LOSS

Branch	93 Expense	93 Revenue (USH Millions)	92 Revenue	93 Funding%
Fort Portal	57.7	51.1	41.5	1.6%
Gulu	70.4	49.3	28.3	4.2%
Ishaka	49.7	42.0	29.1	0.8%
Kabale	68.7	55.6	37.6	1.0%
Kayunga	53.2	52.0	32.9	1.5%
Kitgum	44.2	27.0	12.3	1.3%
Lira	65.5	56.5	39.7	3.6%
Masindi	50.5	48.1	44.0	0.8%
Ntungamo	28.4	39.4	24.5	0.3%
Wobulenzi	51.6	43.0	45.3	1.2%

CLOSURE OF BRANCHES

Closure of branches should not be taken lightly as it could be interpreted negatively by the banks depositors and regulators. Still, when a bank is technically bankrupt cost reduction must be immediate and substantial. Therefore, both points must be taken into consideration. While all of the branches listed above could be candidates for closure, at this point only two branches should be closed in 1994. Rather than close other branches, at this point bank management feels it would be more prudent to try to achieve profitability on an individual branch basis by cutting staff costs. This will be accomplished through automation and streamlining operating and accounting procedures. With that in mind plans have been drawn up to reduce branch staff by 65 people. Reduction targets on a branch by branch basis are contained in the section titled "STAFFING".

All closure should be done in this calendar year in a phased-in approach. Two or three months should be given between branch closure in order to transfer assets and liabilities in an orderly manner to another branch or to the headoffice.

The following branches should be closed:

ISHAKA - Contributes less than 1% of total demand deposits. Accounts should be moved to Mbarara, which is 40 miles away.
Gross Savings 1994 budget - USH59.9MM
Revenue reduction - We will attempt to transfer all accounts to the branch at Mbarrara, CBL will certainly lose some clients, thus losing revenue. Assume 1993 revenue will be halved, going from USH42MM to USH21MM.
Net Improvement - USH USH38.9MM
Target close date - December 1994

WOBULENZI - 1.2% of total demand deposits in 1993, 3% of overhead. Accounts should be moved to Kampala, which is 30 miles away.
Gross Savings - USH66MM
Revenue reduction - We will attempt to transfer all accounts to the branch at Kampala, CBL will certainly lose some clients, thus losing revenue. Assume 1993 revenue will be halved, going from USH43MM to USH21.5MM.
Net Improvement - USH44.5MM
Target close date - September 1994

SUMMARY OF RECOMMENDATION

Recommendation will save a gross amount of UHS125.9MM and a net USH83MM yearly.

ACCOUNTABILITY AND SCHEDULE

Branch closings should be informed to BOU by the bank's legal department. Branch closings should be carried out by the bank's Chief Accountant and Chief Internal Auditor. Closings should take place according to the aforementioned timetable. Closings should not be announced to headoffice or branch staff in advance. CBL's Chief Accountant and Chief Auditor should carry out the closings. They should be accompanied by a six person audit unit, bank security people and the Manager of Manpower. It will be Manpower's responsibility to terminate all staff.

CORRESPONDENT BANKING:

This section discusses closure of 4 correspondent bank accounts, moving CBL's main USD account to Citibank, utilizing PC based payment initiation products and a passive funds management program for USD and GBP payments. The net result of these actions should add USD102,000 to the bank's bottom line.

CBL maintains the following nostro accounts:

USD Accounts
Chemical Bank, U. S.
D. G. Bank, Germany
Foreningsbanken, Sweden
Midland Bank, U. K.

GBP Accounts
Midland Bank, U. K.

DM Accounts
D. G. Bank, Germany

SEK Accounts
Foreningsbanken, Sweden

NOK Accounts
Den Danske, Norway

KES Accounts
Cooperative Bank of Kenya, Kenya

CBL can reduce its correspondent banking charges, get better operational service and better manage its cash position by making the following changes relative to its correspondent network.

USD Accounts

A bank the size of CBL probably requires only one USD account. It is also preferable to consolidate deposits at one bank and utilize an automatic investment vehicle so that USD balances are not sitting idle. Since it is usually preferable to hold an account in the domicile of its currency that account should be in the US. USD accounts with D. G. Bank and Midland should be closed. The account with Foreningsbanken should remain open, as it serves as a conduit for funds from SIDA.

Further CBL should close its account with Chemical, cease using Midland a UK bank for USD transactions and make Citibank its USD correspondent. Reasoning follows:

o...Chemical covers the account out of NY, Citi would cover the account out of Nairobi, even though the actual physical account would be in New York, hence service should improve.

o...Kampala and Nairobi are in the same time zone. CBL would be able to discuss operational and computer problems with Citibank staff in Nairobi by telephone or fax. Communications cost would also be greatly reduced. Communications costs incurred by correspondent banking are estimated to be USD33,000 p.a.

o...Citibank has offered an electronic funds transfer product to CBL, whereby payments would be initiated by personal computer and transmitted via a modem over telephone lines. Payments going to Chemical now go by telex. Telex cost is usually four to five times as expensive as telephone communication.

o...Payments received by major US banks via personal computer are handled with little manual intervention. Therefore processing charges for payments initiated by personal computer are usually a fifth of the cost of a telex initiated payment. The bank currently pays Chemical USD30 per payment for telex initiated payments. It also utilizes Midland in London for the dollar payments, their fees are even more expensive, at USD40 per payment instruction. Citibank has quoted USD10 per payment.

SAVINGS

With an annual volume of 1350 items going to Chemical Bank the annual cost saving would be USD27,000 on processing alone. In addition, communication costs would be slashed by approximately 75% (from USH33,000 yearly) as CBL would be using telephone transmission to Nairobi as opposed to telex transmission to New York or London.

Remuneration to Correspondent
CBL compensates Chemical Bank for its services in two ways, the direct charges and a minimum balance requirement of USD200,000. Usually American banks charge one way or the other, not both simultaneously. CBL should be remunerating Chemical in one way or the other but not both.

CBL should opt for fee based compensation. Compensating balances are generally a more expensive way to pay for services than is fee based compensation. US banks subtract reserves from the balance a client maintains, hence if you have $100 on deposit you only get credit for $85. US banks also levy a charge for deposit insurance, thus bringing down the balance you get credited with to about $80. Lastly, balances are theoretically based on an earnings credit rate, which is usually based on US treasury bills and which is in actuality lower than the treasury bill rate and other short term investment alternatives.

Using the above example, where CBL has USD200,000 on deposit, after reserves and insurance are factored out CBL is getting credit for only USD160,000. One could make the case that paying in balances is 20% more costly than paying in fees. CBL could do better paying fees and investing free balances.

Balance Levels

As of 31 December 1993 CBL had close to USH1BN on deposit in 4 correspondent accounts that were not earning interest.

SUMMARY ACTION, SAVINGS, ACCOUNTABILITY, SCHEDULE

Close USD accounts at Chemical, Midland, D. G. Bank.

Open operating account at Citi.

CBL should have Citi install their software for electronic payment initiation in the IBR. Savings incurred in processing will be USD27,000. Communications savings would be approximately USH25,000. CBL should also request Citi provide a PC, printer and modem at no cost.

Route all USD payments through Citibank, eliminate Chemical and Midland for USD payments.

Maintain most USD balances at Citibank.

Have Citi provide an automatic investment facility (passive funds management) so that balances are earning interest and the need for active funds management is minimized. Using the total USD position at all correspondents as of 31 December 1993 of USH1BK, and assuming a US treasury rate of 6% and Citi taking a 1% investment fee, CBL could earn USD50,000 in interest in one year.

Net result of actions taken on USD account will add USD102,000 to the bottom line.

Arrange an electronic payment initiation capability with Midland, another major U.K. clearer or Citibank, London to reduce processing fees and communications costs associated with Sterling payments.

Close the account at Cooperative Bank of Kenya as it is dormant.

Actions to be carried out by the IBR by August 1994.

ORGANIZATION

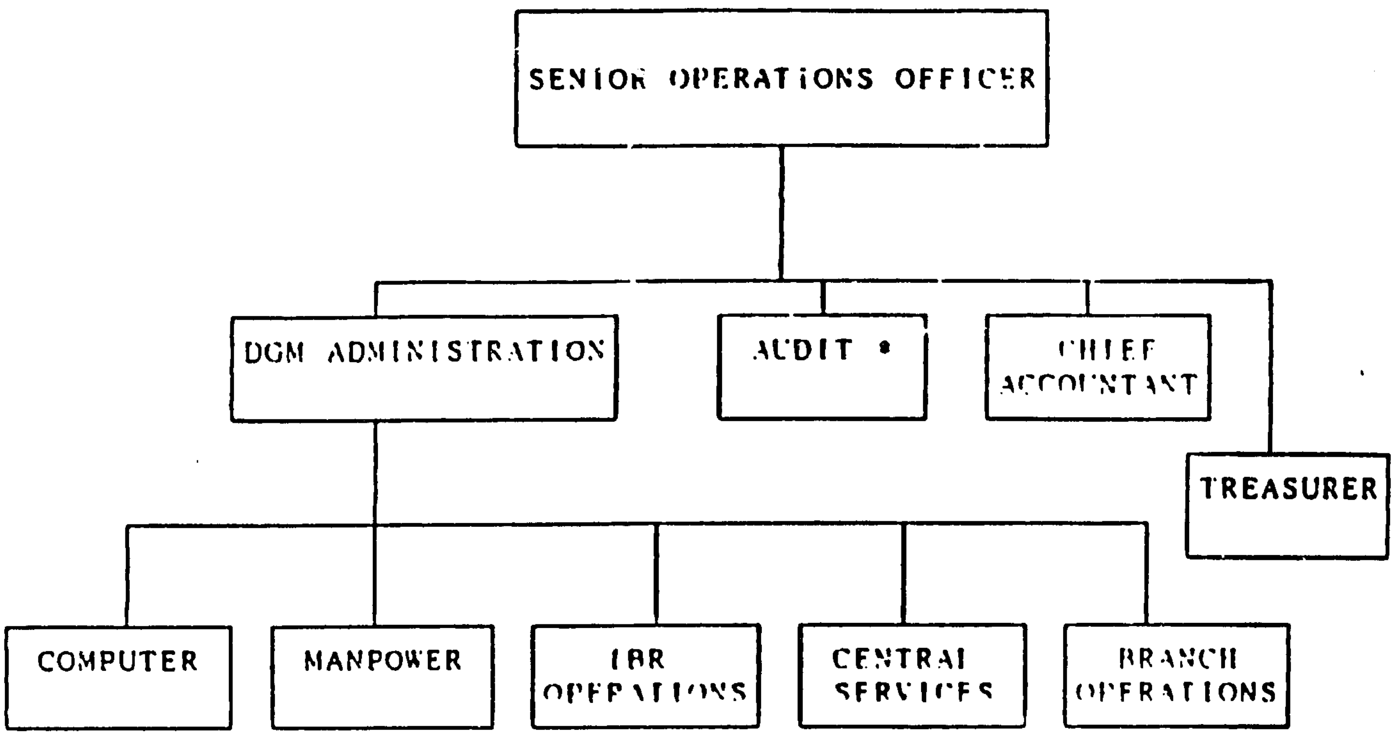
Operating, accounting and treasury functions should report to the senior operations officer contracted by USAID. This should serve to maximize the consultants contribution to the institution.

Legal should continue to report to the MD.

Central services is comprised of security, messengers, drivers, tea girls, the registry, purchasing, cleaners, supply and premises.

An organization chart follows.

OPERATIONS, ACCOUNTING AND TREASURY DIVISION



* Audit also reports directly to the Board.

BEST AVAILABLE DOCUMENT

PERSONNEL(retrenchment)

This section advocates retrenchment of 150 employees. The estimated cost for this exercise has been calculated using two formulas. One is based on the package offered by UCB. The other is based on the CBL's standing orders and agreement with the labor union. The reason for using two formulas is managements belief that the financially better of the two plans should be offered in order to mitigate the possibility of legal action.

UCB Plan
Retrenchment cost for 150 employees will be USH276,500,000 (outstanding employee loans to be netted against this figure).

CBL Plan
Retrenchment cost for 150 employees will be USH528,992,246 (outstanding employee loans to be netted against this figure).

Savings
Assuming retrenchment of 150 employees is completed by June 30, 1994 USH185,401,818 will be saved in staff cost during the last six months of this year. In 1995 when 200 employees in total would have been retrenched the savings would be USH494,404,848.

BACKGROUND
After reserves for loan loss, personnel cost is the single largest component of overall operating expense. Since 1990, personnel costs have more than tripled going from USH756MM in 1990 to USH 2.5BN in 1993. This tripling of expense figures has occurred despite the fact that staff has been cut from 790 employees in 1990 to 539 employees as of 1 March 1994, a reduction of 251. This disparity is due to promotions, inflation and the fact that union members did not receive increases from 1988 to 1992, when reached, settlement was retroactive.

CBL management believes the bank is overstaffed and can reduce headcount significantly without adversely impacting operations. This reduction would impact both headoffice as well the branch network. Senior CBL management has indicated that a reduction of 150 employees is their target. A further reduction of 50 should be targeted for 1995. The writer believes that a staff of 339 employees would still be excessive considering the asset size of the bank. However, it would be difficult, if not unwise to make further reductions before 1996 as:

Funding will need to be in the form of a PL-480 Title II grant.

Little of CBL is currently automated. Subsequent to automation further evaluation of staffing should be undertaken.

The bank has already reduced its staff by 200 since 1991 and cutting the staff by more than 40% at once could have a negative impact on staff morale and operations.

CBL should offer a voluntary retirement program at first. A voluntary program should somewhat reduce the trauma involved in a large staff cut. Should target staff reductions not be met through a voluntary program reduction should continue on a nonvoluntary basis.

Staff from grade levels 6 thru 10 would be the focus of this retrenchment. All staff would be eligible to take the package, but acceptance of formal applications would have to remain at the discretion of the senior management of the bank. Staff members above grade 6 would not be targeted for this program at this juncture for two reasons. First, they comprise only 8% of the employee population. Second, it would seem prudent to wait to make management changes until senior management has had a sufficient amount of time to evaluate performance.

BREAKDOWN OF EMPLOYEES

Of the current staff of 539 employees, 496 or 92% are at grade levels 6 thru 10. The breakdown of employees at various levels follows:

Grade	Number of Employees	% of Employees
6	51	9.5%
7	97	18.0%
8	84	15.6%
9	175	32.4%
10	89	16.5%
Total	496	92.0%

At these levels total monthly pay ranges from a high of USH431,640 monthly to USH114,737 monthly, with basic pay ranging from a high of USH51,065 monthly to USH11,230.

Tenure of the 496 employees at grade levels 6 thru 10 are shown below:

Tenure	Grades						
	6	7	8	9	10	Total by Service	% by Service
< 5 years	22	60	31	85	37	235	47.3%
6 to 10 years	5	4	9	30	21	69	13.9%
> 10 years	24	33	44	60	31	192	38.9%
Total by Grade	51	97	84	175	89	496	100%

If CBL management targets a reduction of 100 staff members, statistically we can assume applications for the package will follow the same ratio as the total employee population. I.E. 47.3% or 48 of the employees to be released would have been here less than 5 years, of that 9% would be grade 6, 18% - grade 7, 15% - grade 8, 32% - grade 9, 16% - grade 10. The same ratios would hold true for the 13.9% or 14 people at CBL for between 6 and 10 years and for the 38.9% or 39 people here more than 10 years.

For the sake of following the accounting principle of conservatism we will assume all the employees are at the maximum salary for their grade.

Keeping this data in mind the cost of this retrenchment exercise can be estimated. Again, cost is broken into three components; severance, accumulated leave and retirement. Costs have been calculated per 100 employees reduced. This base was chosen so that the numbers could be manipulated more easily. A reduction of 150 employees means using a factor of 1.5. If we were only to have a reduction of 50 employees, a factor of .5 would be used.

Employees Loans

Employee loans, which total USH961,000,000 should be netted against retrenchment payments. Data on outstandings by employee grade is not available.

SAVINGS

Assuming all retrenchment is completed by June 31, 1994.

Grade	Employees	Monthly Total Salary	6 Month Savings
6	10	USH305,275	USH18,316,500
7	18	USH245,325	USH26,495,100
8	16	USH200,445	USH19,242,720
9	33	USH177,865	USH35,217,270
10	17	USH131,311	USH13,339,722
Rounding	6	USH305,275*	USH10,989,900
Total	100		USH123,601,212#

* Assume highest monthly salary for rounding.

6 month saving for 100 employees = USH123,601,212

6 month saving for 150 employees = USH185,401,818

Terms of staff reduction - UCB Plan

Precedent has been set for remuneration involved in voluntary separation or early retirement by government entities, Uganda Commercial Bank and several foreign banks.

One could make a case that CBL's offer should be the same offer as UCB's because details of their package are known to CBL employees, as they appeared in the press. Details follow:

Terms of Voluntary Separation

1. 0 - 5 years service
   3 months total salary (basic and allowances)
   3 months in lieu of notice (basic salary)
   Accumulated leave

2. 6 - 9 years service
   6 months total salary (basic and allowances)
   3 months in lieu of notice (basic salary)
   Accumulated leave

3. 10 years service
   12 months total salary (basic and allowances)
   3 months in lieu of notice (basic salary)
   Accumulated leave

Cost of Staff Reductions - UCB Formula

Cost of staff reductions would be comprised of severance pay and accumulated leave.

SEVERANCE PAY

For employees with less than 5 years (48 employees), the severance package will be comprised of 3 months total salary plus 3 months basic salary.

Grade	Employees	Total Month Salary	Basic Month Sal	Total Severance
6	5	USH305,275	USH51,065	USH5.3MM
7	9	USH245,325	USH44,895	USH7.8MM
8	8	USH200,445	USH40,455	USH5.8MM
9	16	USH177,865	USH36,419	USH10.3MM
10	8	USH131,311	USH24,803	USH3.7MM
Rounding	2	USH305,275*	USH51,065	USH2.1MM
Total	48			USH35MM

* Assume highest monthly salary for rounding.

For employees with between 6 and 10 years service (13 employees) the severance package will be comprised of 6 months total salary plus 3 months basic salary.

Grade	Employees	Total Month Salary	Basic Month Sal	Total Severance
6	1	USH305,275	USH51,065	USH2.0MM
7	2	USH245,305	USH44,895	USH3.2MM
8	2	USH200,445	USH40,445	USH2.6MM
9	4	USH177,865	USH36,419	USH4.7MM
10	2	USH131,311	USH24,803	USH1.7MM
Rounding	2	USH305,275*	USH51,065	USH4.0MM
Total	13			USH18.2MM

* Assume highest monthly salary for rounding.

For employees with more than 10 years service (39 employees) the severance package will be comprised of 12 months total salary, plus 3 months of basic salary.

Grade	Employees	Total Month Salary	Basic Month Sal	Total Severance
6	4	USH305,275	USH51,065	USH15.2MM
7	7	USH245,305	USH44,895	USH21.5MM
8	6	USH200,445	USH40,445	USH15.2MM
9	13	USH177,865	USH36,419	USH29.2MM
10	7	USH131,311	USH24,803	USH11.6MM
Rounding	2	USH305,275*	USH51,065	USH7.6MM
Total	39			USH100.3MM

* Assume highest monthly salary for rounding.

TOTAL SEVERANCE (100 EMPLOYEE BASE) = USH153,500,000

ACCUMULATED LEAVE

CBL would also have to pay employees accumulated leave. The payment for accumulated leave is based on the basic monthly salary. CBL employees between grades 6 and 8 receive 30 working days or 1.5 months leave yearly. Grades 9 an 10 get 28 working days, in order to be conservative this should be rounded to 1.5 months. Also in order to be conservative assume staff has not taken any leave. Leave salary to be paid for each reduction in staff of 100 follows:

Grade	Employees	Monthly Salary	1.5X Monthly	Total
6	10	USH305,275	USH457,912	USH4.6MM
7	18	USH245,305	USH367,957	USH6.6MM
8	16	USH200,445	USH300,667	USH4.8MM
9	33	USH177,865	USH266,978	USH8.8MM
10	17	USH131,311	USH196,967	USH3.4MM
Rounding	6	USH305,275*	USH457,912	USH2.7MM
Total	100			USH31MM

* Assume highest monthly salary for rounding.

TOTAL LEAVE ALLOWANCE = USH31,000,000

SUMMARY - TOTAL COST FOR RETRENCHMENT UCB PLAN

SEVERANCE (100 EMPLOYEE BASE)	= USH153,500,000
LEAVE ALLOWANCE (100 EMPLOYEE BASE)	= USH 31,000,000
TOTAL RETRENCHMENT (100 EMPLOYEES)	= USH184,500,000
TOTAL RETRENCHMENT (150 EMPLOYEES)	= USH276,750,000

CBL's management has suggested that the cost of this program be funded via the USAID PL-480 Monetization Program.

Cost of Retrenchment - CBL Standing Orders and Union Agreement

CBL management has expressed their view that the retrenchment package offered to employees be the better of the UCB retrenchment and regulations governing termination under the bank's standing orders, rules and regulations and the agreement with the labor union.

Required payments under the CBL's standing orders, rules and regulations consist of the following categories:

- Cash In Lieu of Notice
- Retirement
- Severance
- Leave Allowance

Cash In Lieu of Notice

Guidelines for this payment are found in the banks standing orders, rules and regulations, pages 21 and 22, standing order number 19, letter a, roman numeral i. It states " On giving the employee three months written notice or by giving the employee three months salary in lieu of notice". Payments are estimated below:

Cash In Lieu of Notice

Grade	Employees	Total Month Salary	3X Monthly	Total
6	10	USH305,275	USH915,825	USH 9,158,250
7	18	USH245,305	USH7359157	USH13,246,470
8	16	USH200,445	USH610,335	USHö9,621,360
9	33	USH177,865	USH533,595	USH17,608,635
10	17	USH131,311	USH393,933	USH 6,696,861
Rounding	6	USH305,275*	USH915,825	USH 5,494,950
Total	100			USH61,826,526

* Assume highest monthly salary for rounding.

TOTAL CASH IN LIEU OF NOTICE (100 EMPLOYEES) = USH61,826,526

TOTAL CASH IN LIEU OF NOTICE (150 EMPLOYEES) = USH92,739,789

LEAVE ALLOWANCE

Guidelines for this payment are found in the banks standing orders, rules and regulations, page 14, standing order number 8, letter b, roman numeral v. It states " Leave allowance plus two months basic salary". The formula used is basic monthly salary multiplied by 12 multiplied by 40%. Payments are estimated below:

Grade	Employees	Basic Salary	Total Severance
6	10	USH51,065	USH2,451,120
7	18	USH44,895	USH3,878,928
8	16	USH40,455	USH3,106,944
9	33	USH36,419	USH5,768,763
10	17	USH24,803	USH2,023,924
Rounding	6	USH51,065*	USH1,470,672
Total	100		USH18,700,351

* Assume highest monthly salary for rounding.

TOTAL LEAVE ALLOWANCE (100 EMPLOYEE BASE) = USH18,700,351

TOTAL LEAVE ALLOWANCE (150 EMPLOYEE BASE) = USH28,050,526

RETIREMENT PAYMENT

Guidelines for this payment are found in the banks standing orders, rules and regulations, page 24, standing order number 22, letter d. It states "Gratuity payable to an employee is equivalent to his/her annual basic salary x number of years served". CBL management has informed the writer this payment applies to grades 1 through 8 (inclusive). Payments are estimated below:

Employees with less than five years tenure are not eligible for retirement payments.

Grade	Employees	Retirement Payment
6	5	NIL
7	9	NIL
8	8	NIL
Total	22	NIL

Employees who have worked between 6 and 10 years (assume conservatively all employees have worked 10 years).

Grade	Employees	Monthly Basic Salary	Total Retirement
6	1	USH51,065	USH 6,127,800
7	2	USH44,895	USH10,774,800
8	2	USH40,445	USH 9,706,800
Total	5		USH26,609,400

Employees who have worked for more than 10 years (assume conservatively 15 years of service).

Grade	Employees	Monthly Basic Salary	Total Retirement
6	4	USH51,065	USH36,766,800
7	7	USH44,895	USH56,567,700
8	6	USH40,445	USH43,680,600
Total	17		USH137,015,100

TOTAL RETIREMENT PAYMENT GRADE 6 TO 8 USH163,624,500

Guidelines for the retirement payment for grades 9 and 10 are found in the collective bargaining agreement signed with the union. The formula used is three months basic salary multiplied by the number of years worked.

Employees with less than five years tenure are not eligible for retirement payments.

Grade	Employees	Retirement Payment
9	16	NIL
10	8	NIL
Total	24	NIL

Employees who have worked between 6 and 10 years (assume conservatively all employees have worked 10 years).

Grade	Employees	Monthly Basic Salary	Total Retirement
9	4	USH36,419	USH4,370,280
10	2	USH24,803	USH1,488,180
Total	6		USH5,858,460

Employees who have worked for more than 10 years (assume conservatively 15 years of service).

Grade	Employees	Monthly Basic Salary	Total Retirement
9	13	USH36,419	USH21,305,115
10	7	USH24,803	USH 7,812,945
Total	20		USH29,118,060

TOTAL RETIREMENT PAYMENT GRADES 9 AND 10 USH34,976,520

Rounding* 8	USH51,065	USH73,533,600

* Assume highest monthly salary for rounding.

TOTAL RETIREMENT PAYMENT (100 EMPLOYEE BASE) = USH272,134,620

TOTAL RETIREMENT PAYMENT (150 EMPLOYEE BASE) = USH408,201,930

SUMMARY TOTAL PAYMENT UNDER CBL STANDING ORDER

CASH IN LIEU OF NOTICE (100 EMPLOYEES)	= USH 61,826,526
TOTAL LEAVE ALLOWANCE (100 EMPLOYEE BASE)	= USH 18,700,351
TOTAL RETIREMENT PAYMENT (100 EMPLOYEE BASE)	= USH272,134,620
TOTAL RETRENCHMENT PAYMENT (100 EMPLOYEE BASE)	= USH352,661,497
TOTAL RETRENCHMENT PAYMENT (150 EMPLOYEE BASE)	= USH528,992,246

ACCOUNTABILITY AND TIMETABLE

Upon acceptance from USAID PL-480 Monetization the bank's chief attorney should prepare a letter to all staff between grades 6 and 10 explaining the banks position and the retrenchment offer. Legal should complete this task within 14 calendar dates of receiving an affirmative response form USAID. This letter should be prepared for the signature of the Managing Director.

Besides components of the offer the letter should stipulate a due date for responses, this date should be 30 calendar days from distribution of the offer letter. All responses should go directly to Manpower. Manpower should track all responses and compare them to staffing requirements decided on by CBL senior management, (covered separately in the staffing section).

Once a target has been reached at a particular branch or in a particular department, say three resignations in branch X, in theory no other resignations will be accepted from that area. This point can have some flexibility within particular branches and departments so that the target reduction of 150 employees will be reached. E. G. if the target reductions for branches X and Y are 3 each and 4 applications for resignation are received from branch X and 2 from branch Y, the 4 applications from branch X should be accepted and one individual could be transferred from branch Y to branch X.

After 30 days Manpower should come up with a list of candidates along with specific costs. He should also have calculated outstandings on employee loans, as outstandings will be netted against the final separation payment. Total loans to current employees total USH961,112,216. Manpower should be working on this task throughout this process and should be given one extra week to prepare this list. * N.B. costs outlined above are based on the distribution of employees and conservative assumptions have been taken regard to salary, length of service and leave.

This list should be presented to senior management as well as the board for review and concurrence. Two weeks should be allocated for this process and the creation of a final list.

Manpower should prepare the termination letters. Legal should review the letters from a legal perspective before they are finalized. This process should take one week. Manpower should conduct exit interviews with each employee accepting the package. Each employee should sign a document which stipulates that their departure is voluntary.

The time from which USAID agrees to fund this exercise to completion should be 8 weeks.

RECAPITALIZATION

Overview

USAID has decided to fund a capital injection to CBL in order to give the bank time to become financially stable and to continue to support Ugandan Cooperatives, agribusinesses and farmers who rely on CBL for working capital. Given this underlying philosophy this section outlines capital injection of all available funding (USH12BN) to be made in three separate tranches in 1994 and one in 1995. This USH12BN is comprised of USAID (USH10BN) and SIDA (USH2BN) funding. Given current 1994 projections CBL's recapitalization requirement is USH15.85BN. Recapitalization of USH12BN will leave the bank with a capital shortfall of USH3.85BN. The section also details the methodology for this capital injection and specific objectives to be met by CBL management in order to receive each tranche. Departmental responsibility and timetables have been established for each CBL management objective.

CBL capital - Current Status

CBL's liabilities exceed its assets and therefore has a negative net worth and is technically bankrupt.

The major reasons for this are:

o.....High percentage of non performing loans, 66% as of 31 December 1993.

o.....Total operating cost jumped 54% from 1991 to 1992 (per audited financials) 22% from 1992 to 1993 (per unaudited financials) due to inflation and a delayed union settlement which necessitated retroactive pay.

o.....Fraudulent actions of clients and staff (USH260MM lost in 1993).

o.....Deficient accounting and financial reporting and controls.

o.....Inability to obtain capital outside of USAID PL-480 Monetization and SIDA.

o.....Local share capital has grown slowly.

1990	1991	1992	1993
USH93MM	USH110MM	USH138MM	USH143MM

Recapitalization Factors - Determining Amounts and Timetable

The total current amount of capital needed to eliminate CBL's negative net worth and meet projected 1994 expenses is USH15.85BN. BOU's Tier 1 capital requirement of USH.9BN is excluded as it is not necessary to meet this requirement until 1996.

This capital injection will be done in a phased approach. The amount of the tranches and timetable for disbursement are dependent on several factors:

o.....Accumulated losses

o.....Bank of Uganda/Bank for International Settlements minimum Tier 1 capital requirements.

o.....Projected write offs for 1994's nonperforming loans.

o.....Extraordinary operating expenses planned for 1994.

o.....Normal budgeted operating expenses.

o.....Success of the nonperforming loan recovery effort.

o.....Feasibility of a new stock issuance.

o.....Ability to raise additional share capital from Cooperative investors and borrowers.

o.....Grant funding from the USAID PL-480 Monetization program.

o.....Grant funding from the Swedish International Development Agency.

Each of the aforementioned points is worth addressing individually.

ACCUMULATED LOSSES

The bank's total accumulated losses are USH13.4BN.

BANK OF UGANDA MINIMUM TIER 1 CAPITAL REQUIREMENTS

According to BOU, considering CBL's asset size, Tier 1 capital should be a positive USH900MM.

The Bank of Uganda follows the capital adequacy requirements of the Bank for International Settlements, Basle (BIS). BIS regulations state that a banks minimum core or Tier 1 capital requirement be 4% of risk adjusted assets. The following items qualify as core or Tier 1 capital:

Share Capital Paid-up
Prior years Retained Profits
Share Premium
Net After-Tax Profit (current year to date up to 50%, if approved by BOU)

BOU and BIS further stipulate a bank's total capital stand at 8%. Total capital is the sum of Tier 1 or core capital plus Tier 2 or supplementary capital. BOU further stipulates that in regard to total capital, supplementary capital cannot exceed core capital.

The following items qualify as supplementary or Tier 2 capital:

Revaluation reserves on fixed assets (if approved by BOU)
Unencumbered general provisions for bad debt (if approved)

CBL's management had been assuming a negative net worth of USH5.6BN. BOU's figures however, indicate a negative net worth of USH13.4BN. According to BOU, CBL is understating their negative net worth. The reason for this disparity was CBL's misinterpretation of core capital. CBL had been under the impression that reevaluated assets could be considered core capital. The BOU will enforce this capital requirement in 1996.

PROJECTED WRITE OFFS FOR 1994'S NONPERFORMING LOANS

Projected writeoffs for 1994 are USH200MM.

EXTRAORDINARY OPERATING EXPENSES 1994

It is vital that the bank reduce operating expenses by reducing personnel expense (see personnel section). Approximately 150 redundancies were identified. The cost of terminating this staff is covered in the personnel section.

NORMAL BUDGETED OPERATING EXPENSE
This is covered under recapitalization sources and uses.

NONPERFORMING LOAN RECOVERY

Recovery efforts have been projected to yield USH.25BN by the credit and marketing department.

FEASIBILITY OF ADDITIONAL STOCK ISSUANCE

The bank will not be able to raise capital by the issuance of new shares. There is no stock market and there is a general shortage of liquidity.

ABILITY TO RAISE ADDITIONAL SHARE CAPITAL FROM CURRENT CBL INVESTORS

Considering the historically low levels of share capital, a low of USH93MM in 1990 to USH143MM in 1993 it is unlikely that CBL can raise much capital from current investors.

A previous report on recapitalization (Richard Neis, December 1992) envisioned a scenario where the bank would raise USD1 of capital on its own for every USD5 to be contributed by USAID. After numerous discussions with CBL management this appears extremely unlikely. In fact management expressed doubt that they could raise additional capital even in a more liberal proportion of USD1 for every USD20 contributed by USAID. Ultimately, however, local capital will be required. USAID and CBL should reach agreement on the amount of capital the bank can raise.

CBL management envisaged two methods of raising capital.

The first method of capitalization planned is to "credit" large borrowers with some amount of capital based on the loan. The accounting entry might be:

Debit - Loans USH110
    Credit - Cash USH100
    Credit - Capital USH10

This plan does not conform to Generally Accepted Accounting Principles (GAAP). In order to credit a capital account cash must enter a business; accounts receivable or a loan can not increase capital.

The second method of capitalization planned was to book loan fee revenue (booking fees) as capital. Normally when a loan is made an up front fee is taken. Therefore if a loan of USH100 is made USH1 is taken as an upfront fee. This fee of USH1 would be booked as revenue. CBL's plan is to book this as capital. The accounting entry might be:

Debit - Loans USH100
Debit - Cash USH1
    Credit - Cash USH100
    Credit - Capital USH1

While this plan may not go against GAAP, it has no effect on capital structure, except for creating additional shares. Recapitalization is the process of exchanging liabilities for other liabilities or equity securities. The objective of recapitalizing the bank is to have a mixture of debt and equity that will allow the company to meet its debts and even furnish a reasonable profit. This second scheme does not satisfy these requirements, it is an accounting entry. Instead of booking income which could become retained earnings income would be booked as share capital. The bank would in effect be giving ownership away to clients.

CBL should be encouraged to raise real additional capital.

GRANT FUNDING FROM USAID PL-480 MONETIZATION

The USAID PL-480 Monetization Program will be the major source of funding utilized to cover CBL's current negative capital.

USAID's primary motive for pumping liquidity into CBL is to continue support of the agricultural sector. Still, like any investor USAID has performance expectations. Specifically that CBL will be a profitable institution by the end of 1995. This is possible only if CBL management is given specific strategies to reach target. USAID and CBL should manage this process by setting strategies, assigning responsibility and timetables and executing the recapitalization in tranches.

USAID has made USH10BN available through the PL-480 Monetization Program. This funding has been made available to the bank as an "Administered Fund". Therefore it is resident on the liability portion of the balance sheet. The USH10BN is broken down into the following categories:

PL-480 Phase I	USH 4,736,258,210
PL-480 Phase II	USH 1,482,000,000
PL-480 Current Account*	USH 3,781,741,790*
Total	USH10,000,000,000

* This amount includes current demand deposits as well as future demand deposits which will made after each of the monthly monetizations of cooking oil. Each monetization yields between USH600MM and USH700MM. For the purpose of these calculations the average of USH650MM has been used.

PL-480 Phase I and II represent outstanding loans already made to the agricultural sector. PL-480 Current Account represents USAID funds held in a demand deposit account with CBL and those funds that will arise out of upcoming monetization and will continue until 30 September 1994. This account serves as a sort of holding account until disbursements are made. Disbursements include loans to the agricultural sector as well as operating disbursements.

According to BOU and GAAP all of these funds can qualify as capital if the liability is cleared from CBL's balance sheet. Accounting entries debiting the liability and crediting the capital account can be made subsequent to USAID preparing a document stating these funds are not a loan but a grant or donation and need not be paid back. Once this document is prepared CBL may make the appropriate accounting entries. Further USAID would no longer have access or recourse to the funds held in the current account or PL-480 Phase I and II.

N. B. All loans outstanding under PL-480 Phase I have been fully reserved for. Any income arising out of the credit department's recovery effort may be booked as capital. The credit department has estimated recovery efforts will yield USH250MM by December 1994.

GRANT FUNDING FROM SIDA

SIDA has made USD2MM available. This funding is currently shown on the balance sheet as "Administered Funds", specifically in the UCA/SCC Export Fund. These funds are also considered as loans or liabilities at this point. Just as USAID PL-480 Monetization funding may be converted into capital after USAID prepares a letter stating these funds are a gift or donation, after a similar document is prepared by SIDA this USH2MM can also be capitalized.

RECAPITALIZATION SOURCES AND USES

As CBL's recapitalization is in question we start with Uses.

USES	
Current Capital Deficiency	USH 13.4BN
Tier 1 Capital Requirement*	USH 0.9BN*
Budgeted 1994 Expenses+	USH 5.6BN+
Extraordinary Expenses (Retrenchment)!	USH 0.6BN!
New Loans	USH 3.0BN
Total Uses	USH 23.5BN
SOURCES	
Income@	USH 2.5BN@
Recoveries#	USH .25BN#
New deposits	USH 4.0BN
USAID PL-480	USH 10.0BN
SIDA Grant	USH 2.0BN
New Share Capital	USH - 0 -
Total Sources	USH 18.75BN
Difference	USH 4.75BN

RECAPITALIZATION RECOMMENDATION

*Uses may be reduced by USH0.9BN if Tier 1 core capital reserves are factored out. The rational for this is the BOU/BIS capital requirement does not become effective till 1996.

Therefore the shortfall would be reduced to USH3.85BN. The total current recapitalization requirement is USH15.85BN.

Notes to sources and uses:

+Budgeted 1994 expenses may be understated. This figure is derived from the new 1994 projections prepared when the original budget approved by the board was questioned. Despite the new budget, some expenses may be understated or not captured:

o.....Interest expense has remained flat though marketing targets a 33% increase in deposits.

o.....General reserves for loan loss are projected to be USH200MM. 1993's actual figure was USH933MM.

Any understatement of expenses would increase the recapitalization requirement. Another cut at the budget is scheduled for April.

!The figure could be reduced. The current projection uses the most conservative formula for retrenchment being considered, the formula based on CBL's standing orders. The shortfall could be reduced by USH.3BN if the UCB retrenchment is used. Both figures may be reduced when outstanding employee loans are netted against them.

@The income figure used is not the figure of USH4.8BN supplied by CBL in the 1994 budget projection. The consultant responsible for credit and marketing suggested USH2.5BN would be more realistic.

#Projected recoveries for 1994 are USH.25BN. Overstatements of this amount would increase the recapitalization requirement. Understatement of recoveries would reduce the recapitalization requirement.

TIMETABLE FOR RECAPITALIZATION 1994 & 1995

Date	Source	Amount
1994		
June 30	USAID PL-480 Phase I	USH 4,736,258,210BN
September 30	SIDA SCC Export	USH 2,000,000,000BN
September 30	USAID PL-480 Phase II	USH 1,482,000,000BN
December 31	USAID PL-480 Phase II	USH 281,000,000MM
1995		
June 30	USAID PL-480 Phase II	USH 3,500,741,790BN*
Total		USH12,000,000,000BN

*This amount can be capitalized if disbursed from the PL-480 Holding Account as loans.

CBL MANAGEMENT MILESTONES

TASK	ASSIGNED TO	COMPLETION
1. Freeze employee loans (except housing advances), salary increases (except union members), hiring	Senior Mgt.	April 1, 1994
2. Prepare restructuring plan	Senior Mgt.	April 1, 1994
3. Finalize retrenchment plan for USAID review	Senior Mgt.	April 15, 1994
4. Prepare data on outstanding loans to grades 6 to 10	Credit	April 15, 1994
5. Ground redundant vehicles for sale	Administration	April 15, 1994
6. Revise Standing Orders	Senior Mgt.	April 15, 1994
7. Revise 1994 budget	Accounting	April 15, 1994
8. Prepare training requirements for consultant	Manpower	April 30, 1994
9. Prepare list of equipment needs for CAAS	Administration	April 30, 1994
10. Complete restructuring of credit & marketing	Credit	June 30, 1994
11. Sell redundant vehicles	Administration	September 30, 1994
12. Retrenchment	MD Legal Personnel Administration	June 30, 1994
13. Establish treasury	MD	June 30, 1994
14. Ugandan government meets CAAS conditionality for ADB & ADF loans	-	June 30, 1994
15. Recapitalization PL-480 Phase I USH4,736,258,210BN	USAID	June 30, 1994

16. Agreement between CBL & USAID on locally sourced capitalization	MD	July 31, 1994
17. Close correspondent accts.	Administration	August 31, 1994
18. Open acct. w/Citi	Administration	August 31, 1994
19. Begin use of electronic payment system & automatic investment. Treasury to monitor balances	Administration Treasury	August 31, 1994
20. Establish ability to buy Ugandan treasuries	Treasury	September 30,1994
21. Establish ability to layoff excess local funds Establish credit lines	Treasury Credit	September 30,1994
22. Recapitalization PL-480 Phase II USH1,482,000,000BN	USAID	September 30,1994
23. Recapitalization SCC Export USH2,000,000,000BN	SIDA	September 30,1994
24. Asset/Liability Mgt. policy	Treasury	October 30, 1994
25. Close Wobulenzi Branch	Legal Accounting Audit	October 30, 1994
26. 1995 Budget Projection	Accounting	November 30, 1994
27. Close Ishaka Branch	Legal Accounting Audit	December 31, 1994
28. Recovery of USH250MM nonperforming loans	Credit/Legal	December 31, 1994
29. Raising of USH150MM of local capital	Senior Mgt.	December 31, 1994
30. Recapitalization PL-480 Phase II USH281,000,000MM	USAID	December 31, 1994

CBL MANAGEMENT MILESTONES

	TASK	ASSIGNED TO	COMPLETION
1.	Freeze employee loans, salary increases, hiring	Senior Mgt.	April 1, 1994
2.	Finalize retrenchment plan for USAID review	Senior Mgt.	April 15, 1994
3.	Prepare data on outstanding loans to grades 6 to 10	Credit	April 15, 1994
4.	Prepare training plan & requirements for consultant	Manpower	April 30, 1994
5.	Prepare list of equipment needs for CAAS	Administration	April 30, 1994
6.	Revise 1994 budget	Accounting	April 15, 1994
7.	Prepare restructuring Plan	Senior Mgt.	April 1, 1994
8.	Revise Standing Orders	Senior Mgt.	April 15, 1994
9.	Complete restructuring of credit & marketing	Credit	June 30, 1994
10.	Ground redundant vehicles & initiate	Administration	April 15, 1994
11.	Retrenchment	MD Legal Personnel Administration	June 30, 1994
12.	Establishment of treasury function	MD	June 30, 1994
13.	Government of Uganda meets Conditionality	ADB & ADF Loans CAAS Project Condition	June 30, 1994
14.	Agreement between CBL & USAID on locally sourced capitalization (Neis Report)	MD	July 31, 1994
15.	Close correspondent accts.	Administration	August 31, 1994
16.	Open acct. w/Citi	Administration	August, 1994

17.	Begin use of electronic payment system & automatic investment. Treasury to monitor balances.	Administration	August, 1994
18.	Sell Redundant Vehicles	Administration	Sept 30, 1994
19.	Close Wobulenzi Branch	Legal Accounting Audit	Oct 30, 1994
20.	Asset/Liability Mgt. policy establish	Treasury	Oct 31, 1994
21.	1995 Budget Projection	Accounting	Nov 31, 1994
22.	Close Ishaka Branch	Legal Accounting Audit	Dec 31, 1994
23.	Recovery of USH250MM nonperforming loans	Credit/Legal	Dec 31, 1994
24.	Raising of USH150MM of local capital, make societies full members	Senior Mgt.	December, 1994

STAFFING

This section specifies staff reductions by area. The total reduction suggested is 150.

CBL management and the consultants reviewed every department in the bank. The purpose of this exercise was to get CBL senior management's views on staffing at each of the branches as well as headoffice. This staffing exercise was the basis of the recommended retrenchment. These initial reductions should be the first in an ongoing series. Following is a review of each section.

IBR

Current staffing - 16
This is high considering LC opening volume of 23 and only 1100 payments for the entire year 1993.
Staff reduction - 3

Administration Division

Computer department
Current staffing - 9
With one project being worked on headcount is not justified.
Staff reduction - 4

Manpower
Current staffing - 13
Ratio of personnel people to employees is not justified.
Staff reduction - 6

Central Services
Current Staffing - 40
Comprised of tea girls, cleaners, purchasing, supply and secretaries, registry and premises people.
Eliminate 2 employees from registry, 1 secretary, 1 transport officer.
Staff reduction - 4

Messengers
Current staffing - 17
Staff reduction - 10

Drivers
Current staffing - 36
The bank employs a large number of drivers in Central Services. Drivers should be assigned to particular areas or individuals. Additionally the bank's fleet will be reduced.
Staff reduction - 14

Security
Current Staffing - 22
The bank's security efforts are in some cases redundant, the bank sometimes stations CBL security people in branches and in addition contracts local police to provide security.
Staff reduction head office - 10
Staff reduction branches - 7

Accounting
Current Staffing - 27
The accounting department consists of the accounts department, reconciliation, finance and treasury, current staffing is 33. The reason for this large number of people could be the fact that the bank is currently running both a manual and computerized general ledger. The manual ledger must be eliminated.

Staff reduction - 5

Audit
Current staffing - 16
Branches should be audited 4 times a year. One audit should be a complete audit the other 3 should be quicker rotations. Complete audits should take 2 weeks to complete, quick unannounced rotations should take 3 days. Factoring in the possibility of emergency situations it seems like no more than 3 audit teams would be needed with two audit teams comprised of 3 people and the other team comprised of two people. Also required are a manager and secretary.

Staff reduction - 7

Credit

Current staffing - 27

Staff reduction - 9

Total Head office reductions - 79

Branches

Management and the consultants discussed each branch individually after one of the consultants had visited 9 branches. The following cuts have been planned.

Branch	Reduction
Arua	2
City	7
Gulu	2
Hoima	3
Ishaka	10(branch to be closed)
Kabale	3
Kasese	4
Lira	2
Masaka	5
Masindi	2
Mbale	5
Mbarara	5
Mityana	5
Rukungiri	1
Soroti	1
Tororo	4
Wobulenzi	10(branch to be closed)
Total	71

TOTAL STAFF RETRENCHMENT 150

No reductions are planned for Jinja, Kayunga, Kitgum, Fort Portal, Metropole or Ntungamo at present.

BRANCHES

Management and the consultants discussed each branch individually after one of the consultants had visited 9 branches. The following cuts have been planned.

Branch	Reduction
Arua	2
City	7
Gulu	2
Hoima	3
Ishaka	10 (branch to be closed)
Kabale	3
Kasese	4
Lira	2
Masaka	5
Masindi	2
Mbale	5
Mbarara	5
Mityana	5
Rukungiri	1
Soroti	1
Tororo	4
Wobulenzi	10 (branch to be closed)
Total	71

TOTAL STAFF RETRENCHMENT 150

No reductions are planned for Jinja, Kayunga, Kitgum, Fort Portal, Metropole or Ntungamo at present.

TREASURY

This section outlines the creation of a treasury function. It nominates an individual to act as treasurer and outlines duties and specific tasks to be addressed.

Currently the bank does not have a separate treasury function. The treasury function is now handled by the chief accountant. Accounting and treasury are totally separate functions, one could even make the case they are opposite in nature. Hence, this report concurs with the 6 December 1993 memo of Richard Obura, DGM Administration that a separate treasury function should be initiated at CBL.

The accounting function is usually one of an internal nature and is usually concerned with events that have already transpired. Responsibilities include record keeping, tracking, financial and managerial accounting, tax work and preparation of financial statements, tax returns, and the annual report.

The function is one of collecting and presenting management information. Further previous, current and emerging patterns must be identified by the accountant and brought to the MD's, senior, operating officer's, senior credit officer's, and DGM's attention.

The treasurer's function is primarily external and is concerned with future events. The treasurer should concentrate on keeping the bank liquid in order to meet current and future requirements. The treasury function emphasizes cash flow.

CBL's treasurer will be responsible for asset and liability management, maintenance of banking relations including securing credit lines, short and long term borrowing, investment in Ugandan government paper, maintenance of donor relations (along with the MD), managing the banks capital, securing additional capital and investor relations.

ACCOUNTABILITY AND SCHEDULE

A new treasurer has been identified. He has been selected as he is the individual who has been performing some of these functions from the Accounting area. He has also received some offsite training in this area. He should be evaluated by the senior operations officer for suitability.

The treasurers immediate tasks will be:

The development of an asset and liability management policy by Octcber 1994.

The raising of new capital from local sources by December 1995.