THE NEED FOR BANKING SECTOR REFORMS AND CONSOLIDATION IN UGANDA: A CONCEPTUAL AND LEGAL FRAMEWORK

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ABSTRACT

The financial landscape, especially the banking sector, is under immense pressure from the global market place of financial services, for the need to provide adequate and cheap capital, competitive technology, and robust professional workforce efficient regulatory and legal framework. This premise however provides services required in fostering and facilitating development in the real sectors of the economy, particularly in developing countries such as Uganda. This development paradox however has made other countries of Yugoslavia, Hungary, Malaysia, Thailand, Indonesia, South Korea, Japan, Turkey and recently Nigeria and South Africa to embark on reforming and consolidating their banking institutions. However anecdotal literature reveals that such undertaking generates immense benefit to countries that embark on such programs, and Uganda a developing country in east Africa, require similar exercise so that it can take advantage of the strong and vibrant financial sector, which would, in the long run, serve as a pre-requisite for regional economic integration, and cooperation. The discovery of oil in Uganda has brought a paradigm shift in terms of revenue generation for governments and a challenging opportunity to the economy which now requires large amount of capital investment; these phenomena have made this need of banking sector reforms to be very urgent and palatable, thereby making the country take advantage of the burgeoning revenue in the oil sector. The globalise economy is therefore in dire need of competitive capital and a strong financial sector that can provide financial services, in the increasingly globalise market place, which is urgently needed for

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growth and development of the economy of Uganda.

I. INTRODUCTION

Reforms are predicated upon the need for reorientation and repositioning of an existing status quo in order to attain an efficient and effective state. There could be fundamental bottlenecks that may inhibit the functioning of banking and financial institutions for growth and development in developing countries like Uganda, and the achievement of core objectives in the drive towards enhancing and sustaining the economic and social apparatus of human Endeavour, carried out through other government institutions, usually the central bank and other private enterprises. Reforms however become inevitable in the light of the global dynamic exigencies and emerging challenging landscape of the financial sector as the strong indicator for any country's growth and development. Consequently, the banking sector as an important sector in the globalize financial landscape need, to be reformed from time to time in order to enhance its competitiveness and capacity to play a fundamental role in financing the real sector investments needs of the economy. Anecdotal literature indicates that the banking sector reforms are propelled by the need to deepen the position of the financial sector and reposition for growth to become integrated into the global financial architecture and evolve a banking sector that is consistent with regional Consolidation is viewed as the reduction in the number of banks and other deposit taking institutions with a simultaneous increase in size and concentration of the consolidated financial sectors in both rural and urban areas. Which is mostly motivated by technological innovations, deregulation of financial services, enhanced product and service intermediation and the increased emphasis in shareholder value, privatization and international competition over the increasing need of capital for investment and development, (Berger et al, 1998; De nicolo et al, 2003; IM,F 2006).[1]

The nexus between consolidation and financial sector stability and growth is explained by two divergent views, proponents of consolidation opine that increased in size could potentially increase bank profit through increased in revenue and gains in cost efficiency. It may also reduce industry risk

1 Berger. A. Rebecca S. .& Phillip E. S (1999) The consolidation of financial services industry; consequence, and implications for the future. Journal of Banking and finance, Vol. 23, pp. 135 – 94.De Nicolo. Gianni etal (2003) "Bank Consolidation, internationalization and Conglomeration; Trends and Implications for Financial Risk" IMF Working paper 03/158.pp 9-11

through the elimination of weak banks and provide better diversification opportunities (see Berge,.2006).while on the other hand the opponents argue that consolidation could increase banks propensity in risk gearing and the leverage for off balance sheet operations. In addition economics of scale are not unlimited as larger entities are usually more complex, bureaucratic, and costly to manage (De nicolo et al, 2006).[1]

The primary objective of this paper is therefore to represent the conceptual framework of the need for banking sector reforms, particularly consolidation in developing countries like Uganda. To do this the paper is divided into five sections. Following the introduction is section (II), which conceptualizes the facet of reforms, and conceptual issues on consolidation in the banking sector, while section (III) discuses the crucial success in banking sector consolidation. Section (IV)The Legal framework (v) presents concepts associated with countries elements of banking reforms while section (V1) concludes the paper.

II. FACETS OF REFORMS AND CONCEPTUAL ISSUES ON CONSOLIDATION IN THE BANKING SECTOR.

A combination of many weak elements of financial sector institutions could jeopardize the health of the fragile economic systems of developing countries that mostly depend on agriculture and revenues that are accruable as a result of subsistence business activity in the economy were Uganda is not an exception. This results primarily from the extraction of rents, which are made possible through weak regulatory and supervisory frameworks, weak safety net arrangements, poor crisis resolution techniques, poor corporate governance and weak structural financial institutions.

In view of the above, the facets of banking reforms aimed at ensuring a healthy ambience which encompasses reforming the supervisory framework with adequate technology and the required professional manpower that provide adequate safety net requirement mechanisms, balanced crisis management resolution techniques, good shareholding structure, (De

1 De Nicolo. Gianní etal (2003) "Bank Consolidation, internationalization and Conglomeration; Trends and Implications for Financial Risk" IMF Working paper 03/158.pp 9-11

Nicolo. Gianni etal 2003) [1]"Bank Consolidation, internationalization and Conglomeration; Trends and Implications for Financial Risk

st banking sector that is all inclusive, and the enthronement of good corporate governance.

Reform of the regulatory and supervisory framework is aimed at aligning the institutional paradigmatic framework governing the regulation and supervision of financial institutions in Uganda, to the needs of a growing and complex financial system which involves issues of regulatory independence, risk focused and rule based supervision, while safety arrangements in reforms embrace the traditional lender of last resort role of the central bank of Uganda, deposit insurance arrangements which serve both the depositor and the financial institutions in the period of crisis require up to date prudential regulation and supervision. Reforms relating to corporate governance evolve in order to provide a well established governance structure and oversight process. This is essential in order to engender proper evaluation understanding and mitigation of risk as well as permit banks to strengthen the stability of their operations and instill accountability. In this regard risk throughout the institution will be properly managed and improvements will be reflected in a stronger balance sheet.

While reforms in the banking industry are aimed at addressing issues such as governance, risk management and operational inefficiencies, the vortex of the reforms is around firming up capitalization. Capitalization however, is an important component of reforms in the banking industry, owing to the fact that a bank with a strong capital base has the ability to absolve losses, arising from non-performing liabilities (NPL). Moreover attaining capitalization requirements is achieved through consolidation convergence as well as various forms of initial public offers (IPOs) in the capital market. Thus banking sector reforms are primarily driven by the need to achieve the objectives of consolidation and convergence (Deccan Herald, 2006)[2] in the financial markets architecture.

1 De Nicolo. Gianni etal (2003) "Bank Consolidation, internationalization and Conglomeration; Trends and Implications for Financial Risk" IMF Working paper 03/158.pp 9-11

2 Deccan h New Banking Reforms to focus on consolidation "New Delth , December, 2005 available at: www. Deccanherald.com.

Consolidation and convergence are achieved through mergers and acquisitions and a merger is a combination of two or more separate firms forming a single firm with new trademarks. The firm that results from the process could take many of the following identities; target or new identity. Acquisition on the other hand takes place where a company takes over the controlling shareholding interest of another company usually at the end of the process; there exist two separate entities or companies. The target company becomes either a division or a subsidiary of the acquiring company. While consolidation involve mergers and acquisitions between / among banks. Convergence involves the consolidation of banking and other types of financial services like securities and insurance. Anecdotal evidence indicates that the commonest form of mergers and acquisitions found in the financial services industry involves domestic firms competing in the same market place involving bank to bank synergy while the second most commonest type of merger and acquisitions transactions involved domestic businesses in different segments (e.g. bank, insurance firms) also cross border merger and acquisitions are less frequent particularly those involving firms from different industry segments (Roger Fergusson jr, 2002).[1]

An early view of capitalization in the banking sector is conceived in terms of the relative cost efficiency where larger banks could eliminate excess capacity in the Areas of information technology, marketing or overlapping branch networks. Cost efficiency could also improve if more efficient banks acquire less efficient ones. Though studies on efficiency in the banking sector always raise doubts about the extent of overcapacity, they point to the potential for improvement in cost efficiency through mergers (FRBSF Economic letter 2004).[2]

A few pundits of consolidation view bank mergers as not about adjusting inputs to affect costs, but also involve adjusting output product mix to enhance revenue. The studies of Achievani et al (1997) , and Berger (1998) in support of this view found that bank mergers do tend to be associated with improvements in overall performance, partly because banks achieved higher valued output mix through a shift in higher yielding loans away

1 Roger W. Ferguson, Jr (2002) Understanding Financial Consolidation," Frbny Economic Policy Review.pp 9-10

2 Federal Reserve Bank of Atlanta Economic Review 84 (40. Pp 26 – 37).

from securities. These studies revealed that merged banks also tend to experience a lowering of their cost of borrowed funds without the need to increase capital ratios. Then low cost of funds is consistent with a decline with overall risk of the combined bank portfolios, compared with that of the merger partners taken separately. This apparently occurs even though a shift to loans by itself might be expected to increase risk. This may imply that a merger can result in a reduction in some dimensions of risk. This then affords the post merger bank more latitude to shift to a higher return, though perhaps higher output mix. The sources of diversification could be as a result differences in the range of services offered by the new bank, the portfolio mix or the segment served by the merging banks are always in conformity with the new dynamics of the market requirements (FRBSF Economic letter, 1998).

Consolidation aside, the capital market is another veritable source of raising banks liquidity, because the capital market serves as a conduit for alternative investments of shareholders funds and devolution of ownership structure despite the fact that offer for subscription by either private placements or through public offer, moreover banks expand their capital base consistent with the new business initiatives, technological innovations and regulatory guidelines. This channel for raising bank capitalization do not directly encourage consolidation of any kind but allow large and complex banking institutions to evolve under a set of banking reforms and indirectly increase the value of shareholders for possible merger discussions. In the later sense the capital market assist in sustaining consolidation as it helps in reducing valuation problems associated with reorganization from the status quo.

III. DRIVERS AND CRITICAL SUCCESS ISSUES IN BANKING SECTOR CONSOLIDATION.

Consolidation in more instances is driven by regulation, Germaine generic factors influencing a potential acquirer or buyer encompasses economics of scale, growth in market share, need to enter more advanced oriented markets and desire to invest excess liquidity of available capital. On the side of the potential seller(s) the influencing factors may include lack of management succession, inability to keep pace with changes, particularly

technology regulatory pressures and perceived opportunity to cash out at a high price. Thus reforms through consolidation are motivated by four key economic factors namely; economics of scale and scope, potential for risk diversification as well as bank management's problems, and the desire for personal incentives and gains.

First looking at economies of scale indicates the relationship between the average production cost per unit of output and production volume which is directly proportional to the value of capital employed. However a firm that produces a higher volume of output can see its unit cost of production declining because the costs of some of the inputs are fixed, such as administrative and overhead expenses. However, diseconomies of scale are also possible. The average production cost may start to rise when output exceeds a certain volume because it may be more costly to manage a very large firm. These costs may stem from corporate governance issues, difficulties in coordination and execution, and diminished flexibility in responding quickly to changing markets. While researchers generally agree that economies of scale do exist in the banking industry mostly at low levels of output, there is less agreement about whether diseconomies of scale prevail at high levels of output.

The second economic concept is economies of scope, a situation where the joint costs of producing two complementary products are less than the combined costs of producing the two outputs separately. This may arise when the production processes of both outputs share some common inputs including both capital investments; such as the building the bank occupies and, labour especially bank management.

The third economic factor is the potential for risk diversification. Evidence has shown that geographic expansion would provide diversification benefits to a banking organization not only by reducing its portfolio risk on the asset side, but also be lowering its funding risk on the liability side, as it spreads funding activities over a larger geographic area, (Hughes, Lang, Master, and Moon 1999).[1] Further evidence suggests that product expansion could yield diversification benefits, most notably between banking and securities

1 Hughes, J.P W. Lang L. J Mester, and C.G Moon (1999). The Dollars and Sense of Bank Consolidation Journal of Banking and Finance 23.pp 2-3

activities, while less so between banking and insurance. Thus, bigger banks are expected to be less vulnerable to economic shocks and that alone could reduce its cost of capital, further confirming the benefits of scale and scope economies that come only from the production process.

The fourth economic paradox involves the bank managements' personal incentives and gains. These may include the desire to run a larger firm and the desire to maximize their own personal welfare. Managerial compensation and pre-requisite consumption tend to rise with firm size. (Kwan and Eisenbeis 1999).[1]

In order to achieve a less costly consolidation exercise, due diligence and negotiation are essential ingredients. Due diligence involves the judgment, care and prudence that an entity should reasonably undertake in order to evaluate any business proposition. In mergers and acquisitions, due diligence is a critical element. It seeks to confirm the material facts and figures provided by the seller. The acquirer therefore has the opportunity to identify subtle but important background details that will impact on the eventual value placed on the business. Due diligence is therefore intended to provide an accurate assessment of the target by highlighting key issues; uncover hidden competitive threats; ensuring disclosure of adequate information to enable the potential acquirer take informed decision and determine a fair value that is satisfactory to the parties involved .Negotiation demands complete attention to details, mental dexterity and coordination of skills. Closing on the negotiation implies consummation of the transaction through the execution and delivery of the appropriate documentation, and if applicable, the transfer of funds. The creation of the new company imposes the challenge of integration for the purpose of achieving synergies, which are intended to justify the premium that has probably been paid for the acquisition. Post merger integration is a tortuous and complex process, which involves the integration of organizations, operations, customers, and products and service offering (Deloitte, 2005).[2] This requires an effective

1 Kwan, S.H & Elsenbies R , (1999). Emerges of publicity traded banking organizations revisited." Pp 4-6

2 Deloitte T (2005). The changing banking landscape in Asia Pacific" A Report on Bank Consolidation.pp 1-2

post acquisition integration plan that incorporates the processes involved in the integration.

The integration process involves careful staff selection process that is fair, transparent, efficient and profitable; interfacing information technology applied by the companies; and synchronization of operational procedures and service offering. Successful integration requires that a rapid choice is made between the different processes used in the companies involved (pre-merger) and harmonization carried out as rapidly as possible.

While there can be many measures for success, most mergers failed to generate 'above market' returns to the shareholders, often due to poor execution and alignment with goals (Deloitte, 2005).[1] Deloitte's paper on consolidation drawing on the Asian Pacific experience observed that the common reasons for merger failures include: unexpected issues relating to technology, credit, customer and capacity; unclear, intangible merger objectives; poor management of different corporate cultures; unrealistic expectations of possible synergies, overpayment for the acquired organization; and under-estimating the information technology integration effort.

The critical success factors include the ability to manage risks, ensure control and exploit growth areas in the blended organization. The Article also notes that in addition to establishing a well defined strategic framework that covers specific priorities, business models and the overall governance process, a successful merger integration effort requires the following:-

- Proper program management – defining an integration road map and process to manage issues that may arise.
- The ability to realize value – being able to capture synergies, and meet strategy targets and establishes appropriate corporate culture.
- Integrating infrastructures – establish common bank office operations, procedures and processes and rationalizing and migrating information systems to a common platform.
- Organization preparedness – such as leadership and staffing, execution of expected plans and change in anticipated management support.

1 Deloitte T (2005). The changing banking landscape in Asia Pacific" A Report on Bank Consolidation.pp 1-2

It is however, proper to observe that each transaction, company and integration is unique and banks will need to maintain an obsessive focus on customer management to ensure minimal disruptions and revenue loss. Well-targeted market strategies are crucial to retaining and attracting new customers.

IV. LEGAL FRAMWORK

A. The financial institutions act of Uganda Define "BANK" as any company licensed to carryout banking business and includes all branches and offices of the company in Uganda.

B. "BANKING BUSINESS" Means the business carried on as a principal business of ;

   I. Accepting deposits of money from the public, payable on demand
   II. Employing such deposits wholly or partially by lending or any other means for the account and at the risk of the person accepting such deposits and;
   III. Presenting to another bank for payment, cheques, drafts or orders received from customers in the capacity of a banker

C. "Central Bank" Means the bank of Uganda established under the bank of Uganda Act.

PART II OF THE ACT.

LICENSING OF FINANCIAL INSTITUTIONS

I. A person shall not transact banking business, credit institution business, or building societies business without a valid license graded for that purpose under this act.

II. No person shall be granted a license unless it is a company with the meaning of this act.

PART III OF THE ACT.

CAPITAL REQUIREMENT OF BANKS IN UGANDA

Minimum capital requirement for financial institutions.

1. A local person proposing to transact banking businesses in Uganda shall have a minimum paid-up-capital of not less than five hundred million shillings invested in such assets in Uganda as the central bank may approve.

2. A foreign person proposing to transact banking business in Uganda should have a minimum paid up-capital of not less than one billion Shillings invested in such assets in Uganda as the central bank may approve.

3. A financial Institution shall at all times maintain
   a. A core capital of not less than four percent of the total risk adjusted assets plus risk adjusted of balance sheet items as may be determined by the central bank by statutory contracts.

   b. A total capital of not less than eight percent of its total risk adjusted of balance sheet items as may be determined by the central bank

PART VIII OF THE ACT MISCELLENEOUS

MERGERS

1) A financial Institution operating in Uganda, shall not be merged or consolidated with or taken over by any other institutions or individual and no interest in the capital of any financial institution with a voting share exceeding 10 percent shall be acquired by any other financial Institutions without the approval of the central bank.

2) In considering any application under this section, the central bank shall power to call for the relevant information.

3) A financial institution which contravenes sub section (1) of this section commits an offence and is liable to a fine of one hundred thousand

shillings for everyday during which the offence continues and in default of payment to imprisonment for a term of one year.

PART IX MISCELLENEOUS PROVISION

MINISTERS POWERS OF DIRECTION

1) The minister may after consultation with the governor and subject to the provision of this act give directions of a general nature in writing relating to the financial and economic policy of the bank.

2) If after consultation with the governor, the minister is of the opinion that the policies being pursued by the bank are not adequate for, or conducive to, the achievement of the bank, the minister may, with the approval of the cabinet by directives in writing determine the specific policy to be adopted by the bank and shall give effect to that policy while the directive remains in file.

3) The minister shall by before parliament issue a directive based on sub section (2) within fifteen sitting days after issuing that directive to the bank.(Fountain,2005.)[1]

LEGAL OPINION FOR CONSIDERATION

The law that is establishing the banking sector in Uganda has to be amended, especially part II, III, VIII, IX of the laws of banking in Uganda Act, so as to reflect, the new exigencies, of modern day banking, which include among others the Autonomy of the central bank of Uganda, so as to be independent, impartial without any political lineage and also the paid up capital of a commercial banks in Uganda should he at minimum the equivalence of 500 million US dollars as against the status quo of 5 million dollars, the reserve requirement should be 30 percent capital adequacy of the bank as against 7 percent. Then also the section that stipulates, the merger of banks should be amended to specify conditions for merger, and

1 Fountain , (2005). Compendium of laws on banking in ugada fountain series kampala Uganda pp 1-6

also banking sector should be outside the clutches of the minister of finance and above politics. There is also need for commercial banks deposits to be insured against failure not by the central bank but by the National Deposit insurance corporation so as to guarantee the safety of Deposits of investors. Therefore for banking sector reforms to take place in Uganda, these conditions must be fulfilled.

- The law establishing banks in Uganda must be amended so as to incorporate the new capital requirement of the banks
- The law that prohibit mergers should be amended to reflect , that small banks can merge so as to take advantage of economies of scale, in terms of technology, economy, professional, legal and financial synergy.
- The central bank of Uganda should be autonomous
- The minister of finance should not be the general oversee of the central bank.
- The central bank should be devoid of any political machination

V. COUNTRY ELEMENTS OF BANKING REFORMS

Banking sector reforms involve several elements that are unique to each country based on historical, economic and institutional imperatives. For example, the Hungary as documented by Cyorgy (2001),[1] the reforms in the banking sector is predicated against the backdrop of banking crisis due to high under capitalization of state owned banks; weakness in the regulatory and supervisory framework; weak management practices; and the tolerance of deficiencies in the corporate governance behaviour of banks which allow and tolerate off balance sheet operations.

The consolidation and restructuring of the Hungarian banking system proceeded in stages as the problems arose and the true magnitude of the problems became evident. The stages include portfolio clearing enterprise oriented portfolio cleaning and rapid recapitalization exercise. Portfolio clearing is a process where banks and savings co-operatives which had a capital adequacy ratio (CAR) of less than a specific percent (in the case

1 Cyorgy S (2001) Banking sector reform in hungry; Lessons learned. Current Trends and Prospects" in current issues in Emerging Market Economic Organized by the Croatian National Bank June 28 – 30.pp 13-14

of Hungary 7 percent) were given government bonds in exchange for their non-performing loans. While the government at a discount sold part of the bad loans to the Hungarian Development Bank, which was charged with the workout, some were left with the banks to be worked out. It generally took between 1 to 2 years for the problem loans to be worked out. The term "work-out" covers the different techniques to deal with non-performing debt. It might include rescheduling of the debt, or writing off the debt altogether. The cost of the exercise in the case of Hungary amounted to an equivalent of about 3.7 percent of GDP.

Enterprise oriented portfolio-clearing debtors. This is usually intended to avoid the closure of certain state owned enterprises, which are considered essential but yet unable to service their debt. Usually the government clears out their debts from the banks' portfolio in exchange for government bonds, most of which eventually get written off. The cost of this enterprise-oriented portfolio clearing attained the equivalent of about 1.6 percent of GDP.

Recapitalization on the other hand, proceeded in three stages. The first stage involved setting the (CARs) of eight participating banks to about zero percent and then in the second stage of four percent. While in the third stage the (CARs) of four large state owned banks was raised to the prescribed Base rule of 8 percent. The recapitalization in the first and second stages took mainly the form of government purchasing newly issued shares by the recapitalized banks.

The government paid for these shares through issued with the same conditions as the earlier consolidation bonds. This action heightens temporarily state ownership in the banking industry. While the third stage involved the extension by the government of subordinated loans to the consolidation process involved a total gross cost of approximately 13 percent of GDP over the eight-year period (1992 – 2000).

In the Yugoslav economy banking industry restructuring was motivated by the need to establish a healthy banking sector that would carry out its financial intermediation role at a minimal cost; effectively provide services consistent with world standards and which will involve foreign financial institutions; and banks privatization as the ultimate goal. The central focus was to shore up

the capital base of banks consolidated through mergers and takeovers of local banks and selection of strategic investors for additional capitalization. Specifically, foreign banks permeated the industry exclusively by providing additional capitalization through investment in the existing infrastructure, particularly new banking products and operating technologies and buying shares of the existing banks.

The banking sector reforms in Japan involved the reform of the regulatory and supervisory framework, the safely net arrangements, as well as mechanisms to speed up attempts at resolution of banks' non-performing loans. In an attempt to revitalize the Japanese banking system, a package of government would consider the possibility of establishing a new system for the prompt infusion of state capital into under capitalized banks the so called " pre-emptive" capital injections; the government would act to ensure a tightening of the assessment of bank asset quality, possibly involving the use of Discounted Cash Flow (DCF) techniques in the assessment of the adequacy of provisions; adoption of stricter criteria concerning the banks' use of deferred tax assets within regulatory capital, with no limits or timetables for implementation; government conversion of bank preference shares that is already owns because of previous bailouts, into common stock in order to trigger nationalization for institutions whose operations had been seriously impaired and the establishment of a new body to operate pari passu with the resolution and collection corporation (RCC) to rehabilitate troubled companies whose future prospects appeared bright.

Pre-emptive capital injections serve as a framework for injecting public funds. Involved the establishment of a new account for strengthening financial functions at the Deposit insurance cooperation (DIC) with a supply of credit by weak but solvent banks. It also allows for the public injection of capital through the purchase of preferred stocks from banks, or preferred equity securities/subordinated loans from co-operatives whilst avoiding the stigma of market uncertainty (Maximilian Hall, 2004).[1]

The Malaysian experience is widely precipitated by the contagion effect of the 1999, Asian financial crisis which force countries such as Malaysia

1 Macmillan J.B Hall A. (2004) Recent Banking Sector Reforms in Japan: An Assessment" mimeo Department of Economics, Loughborough University.pp 3-4

to spend 5 percent of its GDP to purchase non performing loans in their banking sector, Thailand spend 25 percent of its GDP doing similar exercise while Indonesian case broke down its bailout into support programs where 12 percent of the of the value of non performing loans are guaranteed for recapitalization, and also 23 percent of the non performing loans were purchased by government, while south Korea spent 13 percent of its GDP to finance non performing loans during the period.

In response to the financial crisis around the world, Nigeria also underwent a similar exercise by developing 13 point reform agenda in July 2004, as part of the broader economic strategy which was laid down in the national economic empowerment and development strategy (NEEDS) where 67 banks in the financial landscape of Nigeria were force to recapitalize to the tune of 25 billion naira equivalent of 500 million dollars and after consolidations, mergers and acquisitions, recapitalizations 25 banks are remaining with strong capital base of over 15 billion dollars of liquidity that made Nigeria to be the financial powerhouse of west Africa , similar exercise happens in South Africa with the amalgamation of many banks into , Amalgamated banks of south Africa (ABSA) which is now one of the strongest banks in Africa with capital base of over 10 billion dollars.

Evidence in Turkey which underwent similar exercise in 2001, confirms that banks increase their profitability, with the attendant reduction in the cost of doing business, because of low interest rates, thereby financing the real sectors of the economy, the foregoing therefore suggest that banking sector reforms and consolidation is inimical and always serve as a purveyor to development and growth of Economies.

Uganda, a country with a population of approximately 26,404,543 million people (2004 estimate) the country has an average population density of about 132 people per sq km (342 per sq mi). About 15 percent of the population is urbanized with an average life expectancy in 2004 to be 43.8 years for men and 46.8 years for women. However Uganda's Gross national product GNP (World Bank estimate) in 2002 was about US$ 5,932 million equivalent to US$ 240 per capita. The Ugandan economy is largely dependent on Agriculture; where the sector provides for about 31.6 percent of Gross domestic product GDP in (2002). The principal cash crops are

cotton, tea, maize, sorghum and millet. However the country is landlocked and has no direct access to seaport but uses the neighbouring ports of Kenya, (world bank country report 2004).[1]

Therefore with this background the country should not hesitate to reform and consolidate its financial sector especially the banking sub-sector, mainly because of these reasons:

- The discovery of oil in Uganda and the subsequent signing of agreement by government with heritage oil to start drilling and prospecting for more and by 2009, estimated production capacity will amount to approximately 100,000 b/d, and this require large amount of capital investment in which Ugandan banks should be able to participate.
- The proposed integration of the East African economies, require robust and efficient financial sector, which the banking sector reform should gear towards, and take advantage.
- The present agrarian nature of the Ugandan economy need to be complimented with a highly skilled mechanized agriculture, which require huge financial investment for the procurement of heavy duty machinery, which are employed in mechanized farming and a strong financial system which is flesh with cash is required for this endeavour.
- The non mechanized farmers who are mostly subsistent will also be able to take advantage of accessing easily made available soft loans for agricultural purposes because of the strong banking sector which is full of pro.
- The need to provide infrastructure require strong financial institutions because of its huge capital outlay and the provision of infrastructure is one of the basic components of development therefore its provision is imperative and necessary for any meaningful development process to take place.
- The need also to provide industries with adequate capital for business will in the long run encourage farmers to produce more of Agricultural output because of the availability of market with attractive prices and profits.
- Finally the antecedent multiplier effect of this process will have a corollary effect on the other sectors of the economy.

1 World Bank country report on Uganda economic digest 23 (13. Pp 18-20)

Therefore one important lesson of experience that could be gained from other countries is the use of portfolio clearing to workout the non- performing loans of banks with (CAR) below a specified minimum. The workout process could be achieved through various channels including exchanging of the debt for shares in the debtor company. However outright write off of the debt may not be encouraged as this is susceptible to moral hazard and abuse.

VI. CONCLUSION

The Article observed that the fundamental objective of reforms is the repositioning of an existing status quo, which in the long run attains an effective and efficient state consistent with best financial practices. Consequently for banking industry reforms, intended to achieve the objectives of consolidation, competition and convergence, the nucleus remain that of firming up capitalization. Country elements reveal that various conceptualization of the reform processes are unique and proceed as the problems become evident. Consolidation was identified as a key means of achieving capital adequacy in line with regulatory stipulations as well as raising the competitive advantage and strategic positioning. Also, the path towards integration was evidently tortuous involving complex integration process relating to organizations, operations, customers, and products and service offering. This raises the potential for a financial break–down, inadequate ability to manage risks, ensure control and exploit growth areas in the blended organization. A well-defined strategy that covers strategic priorities, business models and overall governance process are among the successful post consolidation efforts that should be made.

Finally there should be in place a proper management program that defines the integration roadmap and processes to manage issues that may arise, captures synergies; integrates infrastructure; and guarantees the organization's readiness to provide the requisite leadership and staffing as well as execution of plans and change management support.

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