

PARLIAMENT OF UGANDA






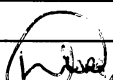



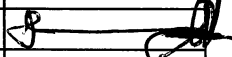
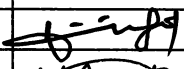

REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC
DEVELOPMENT ON THE MICRO-FINANCE DEPOSIT-TAKING
INSTITUTIONS (REVISION OF MINIMUM CAPITAL REQUIREMENT)
INSTRUMENT, 2022



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JULY, 2023

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Report of the Committee on Finance, Planning and Economic Development on the Micro Finance Deposit-taking Institutions (Revision of Minimum capital Requirements) Instrument 2022

1) Introduction

The Micro Finance Deposit-taking Institutions (Revision of Minimum capital Requirements) Instrument 2022 was presented to plenary by the Minister of Finance, Planning and Economic Development on the 6th July, 2023. It was then referred to the Committee on Finance, Planning and Economic Development for consideration in accordance with Rule 189 of the Rules of Procedure of Parliament.

2) Methodology

The Committee held meetings and received submissions from:

- The Ministry of Finance, Planning and Economic Development;
- Bank of Uganda;

The Committee further made reference to the Micro Finance Deposit-taking Institutions (Amendment) Act, 2003

3) Justification for Micro Finance Deposit-taking Institutions (Revision of Minimum capital Requirements) Instrument 2022

The Ministry seeks to increase the minimum paid up cash capital requirements of micro-finance deposit-taking institutions from Twenty Five Thousand (25,000) currency points to Five hundred thousand (500,000) currency points.

The objectives of the Micro Finance Deposit-taking Institutions (Revision of Minimum capital Requirements) Instrument 2022 are therefore the following;

- a) To improve soundness of the financial sector and enhance efficacy of monetary policy transmission;
- b) To ensure that minimum capital requirements are commensurate with economic growth and inflation developments, are aligned with financial system developments, and sufficient to address emerging risks.
- c) Ensure that Ugandan Microfinance Deposit-taking Institutions hold strong capital that is adequate to finance national development priorities and strategies, and compete in the regional markets;
- d) To ensure that Microfinance Deposit-taking Institutions hold reasonable capital to protect their depositors and creditors against the risk of losses from the banking business;
- e) To ensure that Uganda's minimum capital requirements for Microfinance Deposit-taking Institutions is in line with international standards.

The Ministry of Finance, Planning and Economic Development proposes that the increase in minimum paid-up cash capital requirements for Micro-finance Deposit-taking Institutions shall take effect from June 2024.

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4) Observations and Recommendations of the Committee

4.1 **Erosion of minimum capital requirements.** The Committee observed that the value of the required minimum capital requirements has been eroded overtime, and needs to be aligned with the macroeconomic developments. Between 2010 and 2020, real GDP increased by an annual average of 5.8%; annual headline inflation averaged 6.1%; the UGX/USD exchange rate depreciated by 58.1%. While Microfinance Deposit-taking Institutions' minimum capital remained unchanged.

4.2 **Alignment of capital with growth in assets, risks, and regulatory developments.** The Committee observed that the current paid-up capital is insufficient to efficiently operate a new Microfinance Deposit-taking Institutions given the earlier mentioned macro-economic evolutions in the micro finance market.

The Committee further observed that the currently operating microfinance deposit taking institutions already have the minimum paid-up capital requirements. The four micro-finance deposit taking institutions currently in operation, FINCA Uganda, Pride Micro-Finance Uganda,

4.3 **Need to enhance domestic capacity to finance Uganda's growing economy:** The Committee observed that enhanced paid-up capital will enable banks to finance strategic development projects and sectors, which are currently largely financed with external borrowing and domestic syndications due to the single obligor obligor limits restricted by low minimum capital requirements.

4.4 **Benchmarking.** The Committee observed that there is need to enhance Uganda's banking industry competitiveness in the East African Community common financial services market. In real terms, Uganda has the lowest paid-up capital among regional peers, undermining Uganda banks' competitiveness while exposing the sector to the risk of regulatory arbitrage.

Recommendation

The Committee recommends that the Micro Finance Deposit-taking Institutions (Revision of Minimum capital Requirements) Instrument 2022 be approved by Parliament.