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Elections & foreign currency

Shumuk F/P

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Editorial

Welcome to this edition of the foreign exchange news magazine a publication that highlights accounts of the foreign exchange bureau market in Uganda, courtesy of the Uganda forex Bureau and Money Remittance Association.

Hot on the heels of a historic and memorable visit from Pope Francis this year, Uganda now readies for an exhilarating election period in the next three months.

We asked our writer Mordecai Mulondo to consider what this means for the country economy and the forex bureau business in particular. (See pages 10-12).

If you are having problems of fraud instigated by your employees, we have a great recommendation for you. Turn to page 18 to find out how a new company has ascended to save you from losing millions of money through organized employee fraud at not only your bureau but any other business involving managing currency.

Still more interesting is that in this edition we bring you an insight into Uganda's No.1 income earner- The Tourism industry (according to 2012 World Bank statistics), and how it continues to play a vast role in nourishing the foreign exchange trade operations in Uganda.

We thank the various contributors and interviewees, most of whom we disturbed whose invaluable views and opinions have made our stories richer.

We hope you will enjoy reading this publication as much as we enjoyed putting it together.

Send us your feedback to forex@ugandaforex.ug .

Walugembe Moses Tusubira
Editor-in-Chief

5. Matrix f/p

Current account deficit to widen to $3.6b as Shilling gains slowly

By Our Reporter

For one to say the Uganda shilling has been in abysmal situation against the US dollar, they are perhaps right. Mid-June, the shilling had started sagging, trading in the range of 2980 and 3000 against the dollar.
Its strength kept on wilting until it stretched to 3540 and later to its lowest trading ever at 3945.

Economy experts have cited many reasons for this state of affairs, but poor external sector performance has been the core cited.

Business experts avow that the external sector plays a critical role in small open economies and is often the source of the greatest risks to any economy.

Now although Uganda has achieved some notable successes in the external sector in recent years-notably the strong growth of tourism earnings and exports of food and manufactured products to regional markets, our external performance has deteriorated over the last 10 years.

This has caused a deficit on the current account, according to Bank of Uganda deputy Governor, Dr. Louis Kasekende. In particular, the deficit on the current account of the balance of payments has widened from less than $300 million in 2005/06 to $2.3 billion in 2014/15, the last fiscal year.

Deputy Governor Kasekende submits that the current account deficit is forecast to widen further to $3.6 billion by 2018/19 before levelling off.

"The current account balance is the blue line. The major factor driving the widening current account deficit is the increasing trade deficit, says Kasekende.

To him, the trade deficit in goods and services has almost tripled since 2005/06, from $1 billion in that year to nearly $3 billion in 2014/15 forecasting it to reach almost 3.9 billion by 2017/18.

In the last fiscal year the trade deficit was 12.6 percent of GDP.

Together he says, remittances and donor grants provided inflows of about $1.1 billion in 2014/15, barely enough to cover a third of the trade deficit.

Economic exchange- Matrix 1/2

So, why is the trade deficit so large?

Although exports of goods and services have expanded quite rapidly since 2005/06, from $1.6billion to nearly $5 billion in the last fiscal year, especially because of the growth of tourism, in absolute terms imports of goods and services have expanded by an even greater amount.

Kasekende says that for the last two fiscal years, exports of goods and services have stagnated, as Uganda appears to have reached the limits of supply capacity in many of the country's main export industries, especially the export crops.

"On the other hand, our economy is heavily dependent on imports and import demand has continued to expand, driven by the growth in our economy," says Kasekende.

"In the national income accounts, the current account deficit reflects the gap between gross investment and national savings," he adds.

To the B.O.U Deputy boss, whereas gross investment rates have risen from 25.5 percent of GDP in 2008/09 to 31.5 percent of GDP in 2014/15, there has not been an equivalent rise in national savings rates.

As such the current account deficit has widened and most of the increase in gross investment which has occurred over the last six years has been financed with external savings; mostly external loans and foreign direct investment.

Current account deficits are financed by surpluses on the financial account (net inflows of foreign capital); this is what used to be called the capital account.

When foreign capital flows into Uganda, Ugandans acquire liabilities, consisting of debt or equity, to foreigners.

Kasekende notes that over the next six fiscal years, including the current one, Uganda will require cumulative surpluses on the financial account of approximately $19 billion to fund its current account deficits.

This large capital inflow will have profound implications for the liabilities which Uganda will acquire to the rest of the world.

A giraffe. Exports of goods and services in the country have expanded partly because of the growth of tourism

8. La Cedri f/p

Current account posts deficits

In June 2015, Uganda had net liabilities of approximately $14 billion (equivalent to about 50 percent of GDP). This is the sum of all past current account balances.

> In the past few weeks, the shilling has been gaining against the dollar

Because current account deficits are forecast both to continue and to widen further over the medium term, Uganda's net liabilities to the rest of the world are forecast to increase to $33 billion by 2020/21.

The liabilities to the rest of the world, which comprise equity and debt, must be serviced through interest payments or the remittances of profits; foreigners do not invest their capital in Uganda as an act of charity.

According to Kasekende, in the last fiscal year, Uganda made net payments abroad of $700 million to service its net foreign liabilities. These flows, termed net investment income are a component of the current account.

Eventually it will require Uganda's trade deficits to be reduced sharply, both to generate the foreign exchange needed to service the country's external liabilities and to ensure that those liabilities do not accumulate to unmanageable amounts.

Kasekende says reducing Uganda's trade deficits requires that the investment which will be undertaken in Uganda's economy over the medium term enables both an expansion in real output and that a substantial share of the increase in real output can be used to earn or save foreign exchange, through the production of exports and import substitutes.

Now, with the shilling gaining some strength against the dollar in the past weeks, moving from its low trading of Ush3945, to around Ush3300, the prospects for oil production offer an opportunity to reduce the trade deficit over the long term, and even achieve a trade surplus.

But, these prospects are far from guaranteed, not least because the long term forecasts for the global oil price are so uncertain following its dramatic fall since mid- 2014.

Compared to forecasts made in 2013, current baseline forecasts for the global oil price are about $30 per barrel lower, on average, between 2020 and 2030, in constant dollar terms.

Furthermore, the probability that long term oil prices will be substantially below baseline forecasts appears to have increased markedly over the last 18 months.

9. Money World 1/4

Elections and the economy

Will the 2011 economic meltdown be repeated in 2016?

By Mordecai Mulondo

As you have probably noticed, running for a political office costs money. Raising that money is one of the most important things a candidate does. How this money is raised for each candidate has always remained concealed, in Uganda.

Uganda's 2016 presidential aspirants for instance, John Patrick Amama Mbabazi, Yoweri Kaguta Museveni, Retired Col. Dr. Kizza Besigye, Professor Venansius Baryamureeba, Abed Bwanika, Maureen Kyalya, Joseph Mabirizi and Retired Major General Benon Biraaro each is using tens of millions of shillings already in the 2016 election campaigns and the race is already heated up.

But the hard question to get answers for is where this money comes from.

10. High savings 1/4

This leaves us with solely one option for now to discuss; the effect of campaign expenditures on the economy, more so the forex market.

Going by what happened during and after the 2011 general elections when inflation reached 36%, many speculate that at the end of the 2016 general elections Uganda's inflation would again be out of control although others disagree.

During the 2011 campaign parliament approved a supplementary budget of 60bn Ugandan shillings ($256m) of which a significant sum was assigned to the presidency going to incumbent candidate Yoweri Museveni and this money was spent during the campaign period.

Later, at the end of the second half of the 2014/2015 financial year in June, the Uganda shilling had depreciated against the dollar by 27 per cent.

This caused an outcry from especially traders who import products from abroad in dollars since it meant they had to increase prices of their products to be able to get some profits.

Although the exchange rate which had skyrocketed to sh3,700 in June 2015 per dollar had in November 2015 reduced to sh3,385 per dollar, there is still a lot of uncertainty on which direction the economy is taking.

Food inflation, which was one of the major causes of the 2011 economic meltdown, has increased from 1.8% in August to 20% in October.

With more election related finances that will have been pumped into circulation and the food inflation that usually goes up from January to May, it is highly anticipated that in the first half of 2016 Uganda could possibly experience an economic meltdown similar to the one of 2011.

Reports from the central bank indicate that percentage increase of money in circulation between 2010 and 2011 jumped from 3% to 30%.

Kampala Capital City Traders Association Isa Ssekitto said they highly suspect that money was printed in 2011 to specifically finance political campaigns.

But the governor for Bank of Uganda (BOU) Emmanuel Tumusiime Mutebile has repeatedly allayed fears that Uganda's economy will relapse back into the same

Central Bank pledges to monitor economy

situation it experience in 2011.

He informed the public that inflation will be kept firmly under control during the electoral cycle.

"Even if the fiscal stance becomes more expansionary, the government's domestic borrowing requirement will be fully funded by issuing government securities to the market, and not by central bank financing; as such there will be no monetary financing of the fiscal deficit," Mutebile assured stakeholders.

> In the past few weeks, the shilling has been gaining against the dollar

The governor said Bank of Uganda will strictly monitor the economy for any developments which would worsen inflation and swiftly take the necessary interventions to dampen it.

According to a press release explaining the current dynamics in the exchange rate, BOU attributes the Uganda shilling depreciation against the dollar to majorly decrease in the country's exports.

"The dollar has itself strengthened dramatically on global markets, for example by 13 percent against the Euro since the start of 2015. Second, in Uganda demand for dollars has increased strongly, mainly from the corporate sector, to fund imports and dividend payments to foreign shareholders following improved corporate profits in 2015," BOU states.

The Uganda Central Bank explains that although it has increased to the upsurge of the exchange rate, fears in the media regarding a re-run of the economic instability of 2011 are groundless

"There has been concern voiced in the media about a re-run of the instability of 2011, especially because of fears of election related public spending, and these concerns may be contributing to the pressure on the exchange rate. There are, however, major differences between the situation in 2011 and that of today. In particular, under the macroeconomic framework that has been put in place since 2011 the BOU will not finance Government borrowing and it will use its policy interest rate to forestall any danger of inflation rising above the medium term policy target of 5 percent," BOU stated.

In the current financial year (2015/2016), government introduced a horde of taxes on the business communities and various core products like fuel.

These taxes which were mostly in the transport sector will inevitably lead to increased commodity prices especially in the second half of the financial year.

On May 21, a delegation of Kampala City Traders Association (KACITA) led by the chairman Everest Kayondo petitioned parliament not to approve the taxes arguing they would not only frustrate their businesses but would also increase commodity prices which would lead to skyrocketing inflation.

"For example if you increase the prices of fuel, the pump prices will go high affecting transport costs. In the end, prices of almost everything will skyrocket," Kayondo argued. But government rejected their plea and eventually passed the taxes to generate revenue for funding its sh24trillion.

Commenting on the taxes, former shadow minister for works and transport Ssebuliba Mutumba said, "It is unfortunate that government will be increasing more tax burdens on Ugandans who are already poor. Those taxes will increase the transport costs and commodity prices and therefore lead to inflation which will damage our economy. Uganda workers who are poorly paid will have their salaries eaten away in form of increased transport costs.

It should also be noted that in the current financial year budget, sh6.7trilluion has been earmarked for debt repayment on foreign loans and this means a lot of dollars will be getting out of Uganda's economy in these repayments.

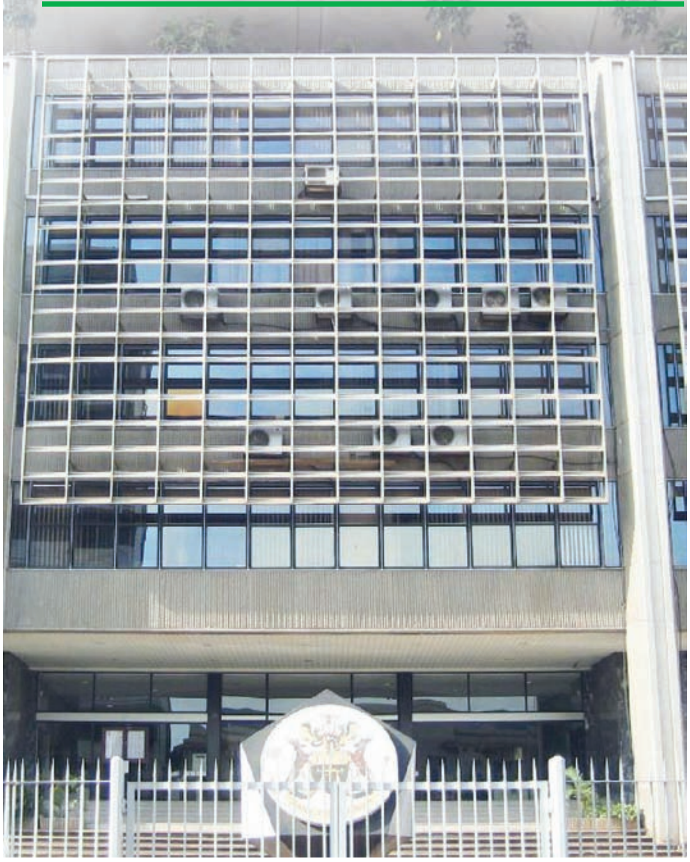
Ali Mohamed, the supervisor for Bicco Felix Bureau, said, "We keep getting reports that the exchange rate is likely to go up because some investors are likely to get their money out of Uganda's economy during the election time for fear of the likely instability arising from elections."

He commended BOU's intervention in buying treasury bills which has led to more dollars into the market and a reduction in the exchange rate to sh3385.

Hussein Mirza, one of the managers of Stan hope forex bureau said, "Although the exchange rate went up in 2011 during the general elections, this time it might go down. According to our projection, we don't expect the exchange rate to go up."

David Baraza of Prime Forex Bureau said, "We cannot predict what will happen tomorrow. But the trend is that the dollar is now losing value in Uganda. It had reached sh3600 but it is now 3300. This happening is unusual especially in an election period. It is something beyond what we can explain."

Drawing from the above information from various stakeholders, there is a high likelihood that the 2016 inflation might be as worse as that of 2011. But anything could happen and therefore the need for strategic business people to keep closely monitoring the economic dynamics in the country.



13. Super Gate F/P

Tejan Ahmed

From a UK immigrant, he now owns a forex business empire

Tejan Ahmed is one of the most successful forex bureau owners in Uganda today, owning one of the oldest, popular and most effective forex bureaus in the country, LLOYDS FOREX BUREAU LIMITED. Tejan also has interests in farming and real estate in Uganda and the United Kingdom. MOSES T. WALUGEMBE spoke to him about how he went from being an immigrant stumped in London, UK working on odd jobs in the 1970/80s to setting up a thriving forex business empire today.

Tell us a little about your background

I was born in Kabale in 1941, into a family of two brothers and one sister. I am truly Ugandan. In 1948, my father migrated from Kabale to Kampala, to get good education. We had only one good school in Kabale - Kabale Primary School at the time yet in Kampala there were many schools yet he wanted us to be in good schools.

So we came to Kampala and immediately I started school at Agha Khan from 1952 to 1957 when I passed my O level what they call GSCE nowadays. From then, at 17 years I joined my father in business.

At that time my father had an oil mill and we used to produce oil. He also had a farm in masindi where we used to grow sugarcane.

We worked hard and progressed. In 1967 I got married and together with my wife bore one daughter. At this time I was looking after the farm and the factory at the same time, so I was always on the move, from Kampala to Masindi moving on terrible roads at the time. They were very bad roads, but we survived.

In 1972 President Idi Amin chased away Asians so I and my family had to leave. It was a very big shock to us, I felt it was like a father betraying his own child. We were given 50 pounds as immigration treatment to leave my country and go to the UK.

At that time my father was Ugandan citizen including me, so we were now faced with a problem of seeking British citizenship. We had lots of problems, I used to sleep outside the British High Commission so that I could be the first one on the queue early morning in order for my application to be processed; it was a nightmare. However we got it and we were able to migrate to UK with only 50 pounds.

We bought heavy clothes with 30 pounds because it was so cold at the time. So I had to work harder.

I joined a company called Firestone, where I worked for about 11 to 20 years. I made some good money working and living in Reading, London, and in 1984 I bought 4 properties and rented them out, and we became well off.

We bought more as a family and accumulated about 18 properties. But I always wanted to come back to my country Uganda.

In 1991 I sold off some houses to reduce the level of exposure and came back home (Uganda).

When did you start your first business?

When I came to Uganda we were told that we could claim our properties, so I applied and filled the forms.

We had no problem, the government was so nice and welcoming to us so much so that it fetched tears in my eyes.

They gave us all our property although it was in dilapidated state following 20 years of turmoil; and they had exchanged hands having gone through different hands.

I brought some money from UK again and we started working on them. Latter in 1993 Bank of Uganda declared a free monetary policy and they encouraged us who wanted to start forex bureau business to apply, so I applied for one.

In 1994 I was allowed to begin, but I had no money because I was working on so many things, including renovation of our houses, the farm in Masindi and so on, so I spent other 3 years without starting.

I went back to UK and got more money, and in 1997 I started Lloyds Forex Bureau.

We started with one branch along Entebbe Road, employing five people; two cashiers, one cleaner, one accountant and one security man.

We had a very good start, there was no competition as such, there were only about five forex bureaus at the time, including, Hydery, Jaffery, Crane which was called Karibu forex bureau belonging to Sudhir Ruparelia, and another one Downtown forex bureau on Jinja road.

We had a good understanding amongst ourselves so we used to decide what rate to give and what rate not to give which made it a lucrative and pleasant business.

The business grew so fast.

What were your major challenges at the time?

The only challenge we had is we used to run out of dollars. The dollars coming in; the inflow was less and Bank of Uganda also wanted dollars at the same time. But even amidst those challenges, in those days, the forex bureaus were the

15. Square systems f/p

Lloyd's boss reveals business journey

winners. People used to change only in forex bureaus, they never went to the banks.

Though banks such as Stan chart, Barclays had the service, they did not have internal infrastructure on international trading. It only came in around 1998 to 2000.

Some banks such as Centenary if I can remember, it was us who helped them to set up international business.

I had to be involved in every aspect of the business. Because I and other colleagues knew the value of the dollar here, the international value and so on.

Even when the banks knew the international value, they did not know how to check the dollar because there weren't machines. It's only us who knew how to feel the true dollar. So we worked closely with them, buying and selling dollars from either way and so they helped us to grow. We had a cordial relationship and we enjoyed the business.

So currently, how big is your empire?

We have about 4 Lloyd's branches, with the Head office still on Plot 1 Entebbe road, a branch at Forest mall, Lugogo bypass, another at Acacia mall-Acacia Avenue and lastly the one along Nabugabo road. We don't want to expand.

Why? It is because in this business we are dealing with buying and selling money so it comes with temptation in as far as the staff is concerned. Secondly there is a lot of fluctuation in the market, for instance if you don't have a good manager, he will go and buy dollars in the morning at a very high rate and in the afternoon the rate goes down and because of that we will have to keep them until the next day, and the next day we don't know what may happen, this can result into vast losses.

With four forex bureaux, how do you keep on top of things?

We hire very good and competent managers and trust them to take charge of the daily operations in my businesses.

We work hard progressively, we work with utmost faithfulness and honesty with our customer, if you had a chance to talk to our customers, they are very happy with us. We buy from them and sell to them, this is our motto. And I think this is one of the reasons why we grow very fast, because our rate is very good, and our dealings don't involve third parties-in this case no other forex bureaus; so we cut down the management costs. And that benefit of management goes to the customer. So this is our secret. Customer is our king, as it is to a Muganda, the customer is the Kabaka, without the customer we are nothing and this is the first thing we teach our employees.

With four branches, I still see it as such a big empire to you do need a hand. Do you have business partners?

Ours is a family business venture, there are no any other outside partners. I work with my wife, and my daughter and it is a very unique relationship which I can't explain to you.

I don’t have partnerships, maybe until I open up a bigger business like a bank.

Trust and honesty are rare qualities among employees. How do you ensure trustworthiness among your employees across the board?
We try to pick staff from good trusted families and we also tend to take on graduates still at school. They are ready to work with commitment. So we support their studies with school fees and other facilities they need as well train them thoroughly. I always tell them, look after my job I look after you because it is my job.
We also put in place good reporting systems to ensure transparency in the conduct of work and business in order to check any loopholes.

What has been your business philosophy over the years?
There is one philosophy that has been told to me, it’s about the eagle.
The eagle is a bird that doesn’t borrow food from anybody; it hunts its food and eats it by itself, in other wards it is self-reliant.
In every business people can do well when they are self-reliant. I use the same method like I told u earlier I don’t deal with other forex bureaus, if u deal with them for example you are relying on somebody to buy and sell your dollar. For us we deal with one person - the customer.
Also hard work, honesty will build a very goodwill for your business and it will help you expand your business.
If you become honest with life, like they say, one tree can make one million matches, but one match can destroy one million trees. So if you are dishonest, you are the match. It also takes time to get to the top. You don’t have to be in a hurry, just stay the course.

Any plans for a new venture soon?
We have plans to open up a finance company, we have actually already got a portfolio to open up Lloyds Finance, basically targeting to finance agriculture projects.
I am an agriculturalist, I believe in it and Uganda is a green country and has more potential in it than in industries. With industries, you have to buy materials from outside, process them and sell them. So our profit of margin is very less with all the URA taxes involved. But with agriculture we are not depending on any foreign currency, it is our own product from our own soil, so the business will have more benefits.

Anti-fraud firm c

By Walugembe Moses Tusubira

Fraud losses continue to impact every business enterprise. Research indicates that average organizations lose between 1% and 7% of their annual revenues to fraud. In Uganda, it is common for companies, such as banks, forex bureaus, insurance companies and retailers to lose money through fraud.

Available police records indicate that half of all small businesses in Uganda experience fraud at some point in their business life cycle. Some of the fraud ranges from payroll fraud to double check fraud, over ordering and friendship fraud among others. Such fraud is usually committed by that "loyal" employee.

In 'A short guide to fraud risk', Nigel Iyer, the co-author with Martin Samociuk cite that managing the risk of fraud is important for a company and is the same in principle as any other business risk. But many senior managers still seem to believe that fraud risk does not exist in their organizations, so it does not need to be managed.

This is why Fraud Vigilance, a new fraud management business enterprise has come on board, committed to serving a valuable purpose – to manage fraud.

According to Sammy Mwathi, the founder and CEO, the enterprise provides fraud management solutions to banks, forex bureaus, insurance companies and manufacturers, among others.

To him, it is these solutions that help maximise revenue by eliminating unwanted revenue leakage and fraud-related losses. With headquarters in Nairobi-Kenya, the company's entry into Uganda has brought hope to notable financial businesses, such as forex bureaus, which are currently on the verge of cracking down on big time fraudsters.

"We appreciate that there is no single business that can eliminate fraud completely on its own," says Mwathi. "It is an integrated management engine meant to help businesses manage fraud risks better," he adds.

According to Mwathi, the business model focusses on minimizing to the bear minimum the extent of fraud, especially employee-driven fraud through a system of data collection.

The immediate risk that every business faces are the employees, rather than outsiders. This is because it is the employees that have access to the company systems. "They know the weak links; they know what can be manipulated and what cannot be manipulated," cites Mwathi. "And, therefore, if businesses can be able to stamp out internal driven fraud scenarios, then we will have impacted a lot in fighting fraud," he adds.

Although it is still new on the market, 'Fraud Vigilance' has received a lot of positive response, according to Mwathi.

How it works

When someone or an entity gets on board as a subscriber, their first responsibility is to provide information relating to their employees, those they have hired and worked with.

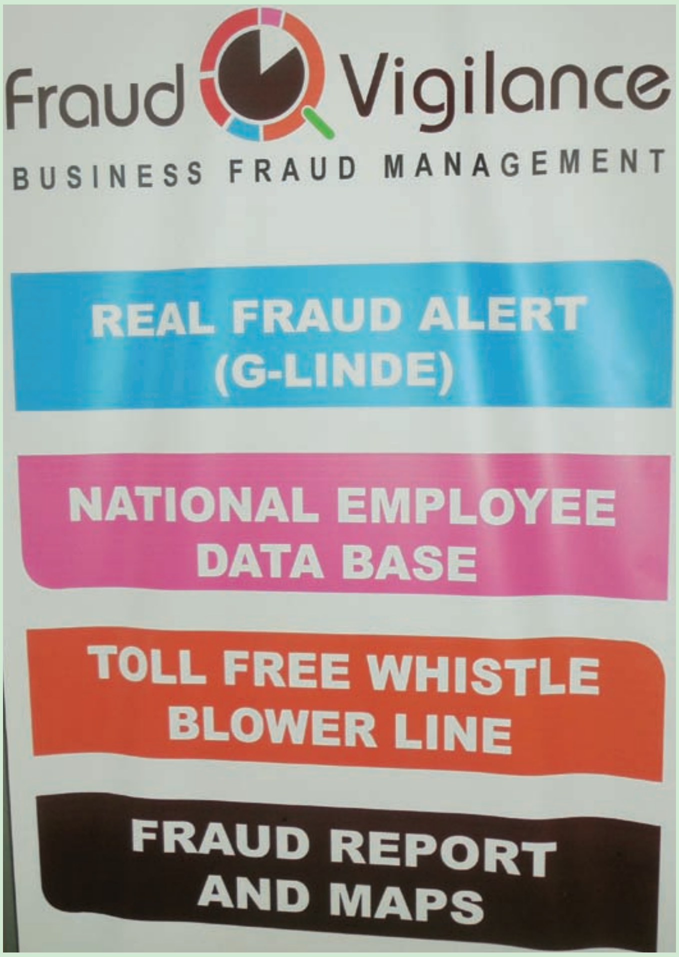
Such information includes their work styles, working behaviours and if any was involved in fraudulent activities, then this is the opportunity to name them.

This information is stored in a database, which can be accessible by paid up members which may include among others financial institutions, insurance companies and many more. Here, member companies can follow up on particular employee behaviours so that when it comes to hiring a particular person, they know who they are hiring in their institution. "This in turn helps not only institutions, such as forex bureaus, but also banks to be able to know the person they want to bring on board," says Mwathi. "It works like the credit reference bureau, where banks share information about the borrowers, "he adds.

Through such a database, any company can detect an individual

18. Fraud vigilance 1/4

pens way to tackle dishonesty



who could have engaged in fraudster activities at their previous job and so the hiring companies will get the right person for the job.

Areas of concern

Risk profiles differ across sectors; some of the sectors that have high risk or are more exposed to internal fraud are banks, forex bureaus, insurance companies and retailers among others.

This is because of the fact that most of the time their capital is always in liquid form-hard cash. This creates a high likelihood of temptation to employees to engage in scam activities unlike in the manufacturing sector where it becomes hard for an employee to wrap off physical products.

"We don't have a bias in terms of sectors because every business person who invests his capital invests to make returns. Now wherever there is an opportunity which in this case is money, a fraudster will appear," says Sammy Mwathi C.E.O, Fraud Vigilance Uganda.

"That's why our product cuts across, from the banking sector, financial sector, insurance, distribution, manufacturing, any sector name it, is a key target for our product," Mwathi adds.

Mwathi cites the need for businesses operating in the financial sector such as forex bureaus, to close the gaps that exist in their businesses to guard against the monster. To forex bureaus, indeed the immediate risk are the employees.

With cases of frequent fraud perpetuated by almost the same individuals as employees who move from one forex bureau to another, stepping up against fraud is key.

When a forex bureau approaches Fraud Vigilance looking for an experienced employee and the bureau thinks they need to bring this person on board and their referee is, maybe a former manager who could be a friend or former fraudster, the company can help detect them.

With Fraud Vigilance, the forex bureau will only need to get into a portal and find out about this person's history.

"What we will have done is to minimize the risk of bringing on board an employee who is fraudulent, coz we will be able to view all their past," says Mwathi.

To business owners such as Lloyd's Forex Bureau Executive Director Ahmed Tejani, who has been faced with employee fraud cases, fraud Vigilance services are long overdue.

"It is a good approach", he says. "I'll go for it," adds Tejani.

To Mwathi, this style has worked in countries including Kenya and businesses who use it say there is a radicle shift in the manner that fraud is managed in businesses.

Lloyd's boss opens up

Considering you are a busy man, what is your typical day like?

I wake up by 7:00am and have breakfast. I am in my office by 10:00am. I don't come to office before 10. From that time until half past five, I am in office.

My job is basically to monitor the currency fluctuation, keep in touch with most of the bankers especially international departments to source out how the dollar is going to be, what the trends, is it high or low trends. Then I also get in touch with my regular customers, because when you get in touch with them they feel better and personalized. As for leisure, I have Sunday when I get holiday, so I wake up late for the start then relax at home or visit a friend or two.

> I have come from the scratch. There was time we were very poor that sometimes we went hungry because we had no food to eat

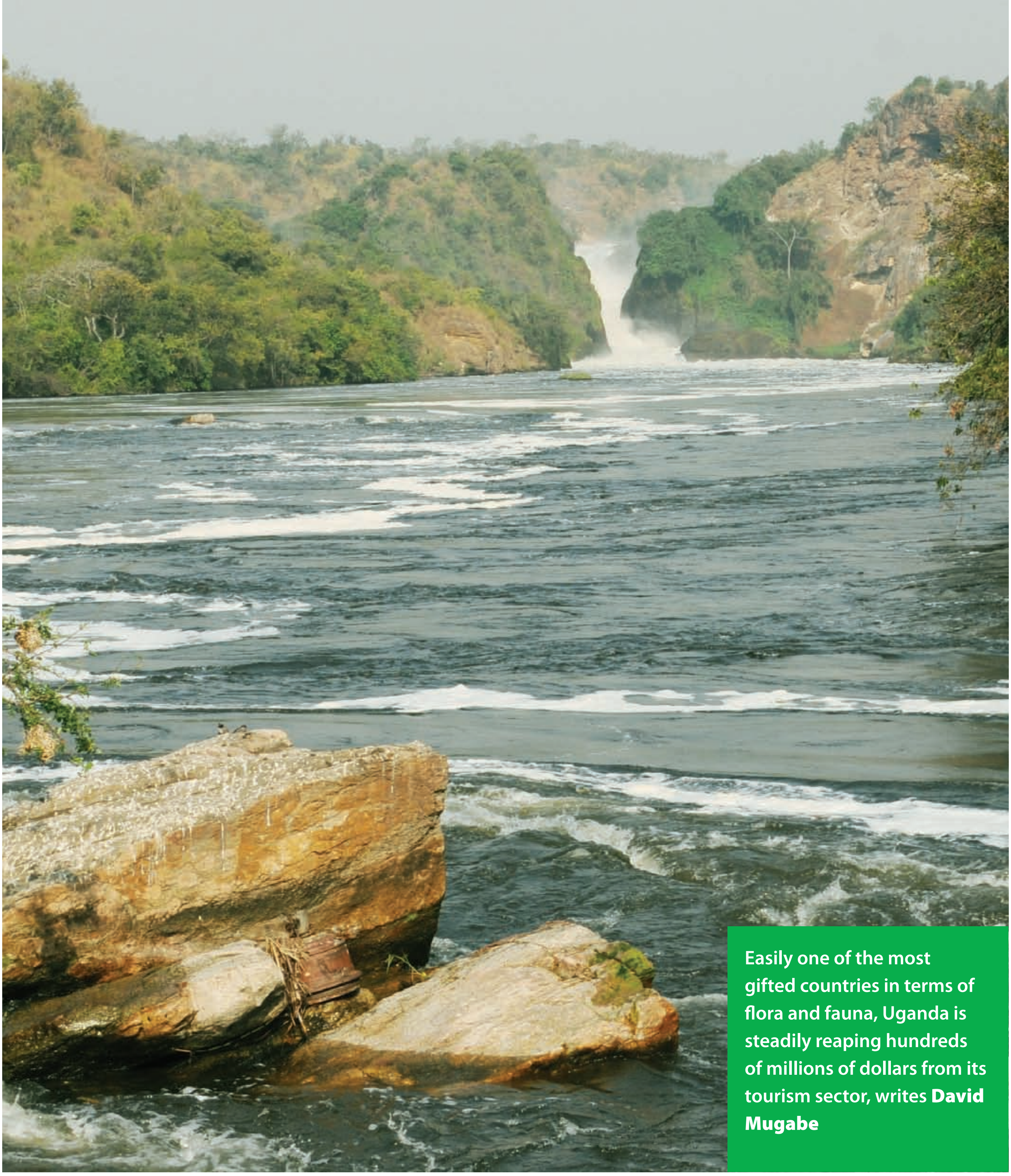
How do you want the world to remember you?

Laughter…. Well, I have come from the scratch. There was time we were very poor when we came from Kabale to Kampala, sometimes with no food on the table. But the reason we survived was because we had unity amongst us. So unity is what I believe in and it's what I always strive for.

When I was a secretary of Uganda Forex Bureau and Money Remittance Association, we had just started and we didn't have money so we started with our very own resources. And people- our competitors especially banks, laughed at us, saying they are fighting amongst themselves for the price and rate, how can they form an association. But we united and we did it. We slowly expanded and today what you see is part and partial of hard work and unity. So I believe that if we have unity and good leadership and commitment like the one we have from our chairman Mr. Lameck Kiiza, we will go heights. All our problems will go, the challenges we are facing will eventually vanish.

20. Metropolitan 1/2?

Effect of tourism on **foreign exchange**



Easily one of the most gifted countries in terms of flora and fauna, Uganda is steadily reaping hundreds of millions of dollars from its tourism sector, writes David Mugabe

Tourism biggest source of foregn exchange

Statistics from Uganda Tourism Board indicate that the country earned over $1.4b in 201, a modest rise from $1.36b the year before. The tourism industry today is the biggest source of foreign exchange for Uganda overtaking remittances from abroad. And tourism remains the only single export that is consumed from source.

Thus any decline in tourism bookings has a direct impact on the foreign currency earned. This in turn affects Uganda's foreign cash reserves, and tourism being an export the overall balance of payment is hurt because imports then outweigh exports. Over the course of the 2014/15 fiscal year, the Ugandan shilling depreciated against the US dollar by 27% partly attributed to a decline in tourism numbers.

According to the Central Bank, Uganda's current account deficit widened in 2014/15 by an estimated $700 million to almost $2.9bn. This was mainly because our exports of goods and services fell in the last fiscal year as a result of lower global commodity prices, problems in regional markets such as South Sudan, and a drop in tourism arrivals.

The shilling slumped to over sh3, 700 in July/ August as a combination of local and foreign factors hit the economy. Although the Ugandan unit has gained some significant ground in the last weeks up to November trading between sh3, 400 - sh3, 500 against the dollar, the major source of the foreign currency is yet to fully recover or maximize its potential.

Thus a decline in tourism activity means the economy is staved off a big stabilizing factor of foreign currency.

Whys and wherefores the decline in tourism viz-a-viz dollar earnings

The Ebola in West Africa hit tourism hard across the continent. Because the continent still suffers from perception issues, it bore the brunt of this wrong perception that many times implied that the entire continent including Uganda is Ebola infested. Thus there were multiple cancellations across board leading major declines in business even when the Ebola scourge was thousands of miles away and actually closer to Europe than Uganda.

The second factor was the now reversed gay legislation which spawned a global outrage and campaign with would be tourists deciding not to come to countries that are suspected of being anti-gay. The last factor was the persistent terror attacks in Kenya that again meant Uganda had to suffer because it was perceived as CNN put it, "as a region which is a hot bed of terror."

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21. Dahab-
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What needs to be done?

To maintain a steady inflow of foreign exchange through its biggest source, "we must feed the cow that we milk," says Amos Wekesa a Tourism promoter and C.E.O Great Lakes safaris.

To Amos, if the country paid attention to marketing the tourism, there would be significant benefits to the economy

During the cycle of a rapidly depreciating shilling, central bank governor asked the business community to take advantage of the depreciation by producing for export.

The positive side about the fluctuating currency is that for the tourist who travels to Uganda, they can expect to find cheaper locally made goods when they change their dollar or any foreign currency. Thus in a period of a depreciating local currency, Uganda's exports are boosted.

"It will be cheaper for tourists to visit Uganda. This should help to bring about a small narrowing of the trade deficit in goods and services," noted Mutebile during an address to manufacturers recently.

To stabilize this, Wekesa says more efforts need to be put in marketing Uganda so the right message is put across as well as letting the world know what Uganda offers.

Wekesa also says the political leadership needs to act in a more responsible way so as not to create panic and some sort of despair especially during election time.

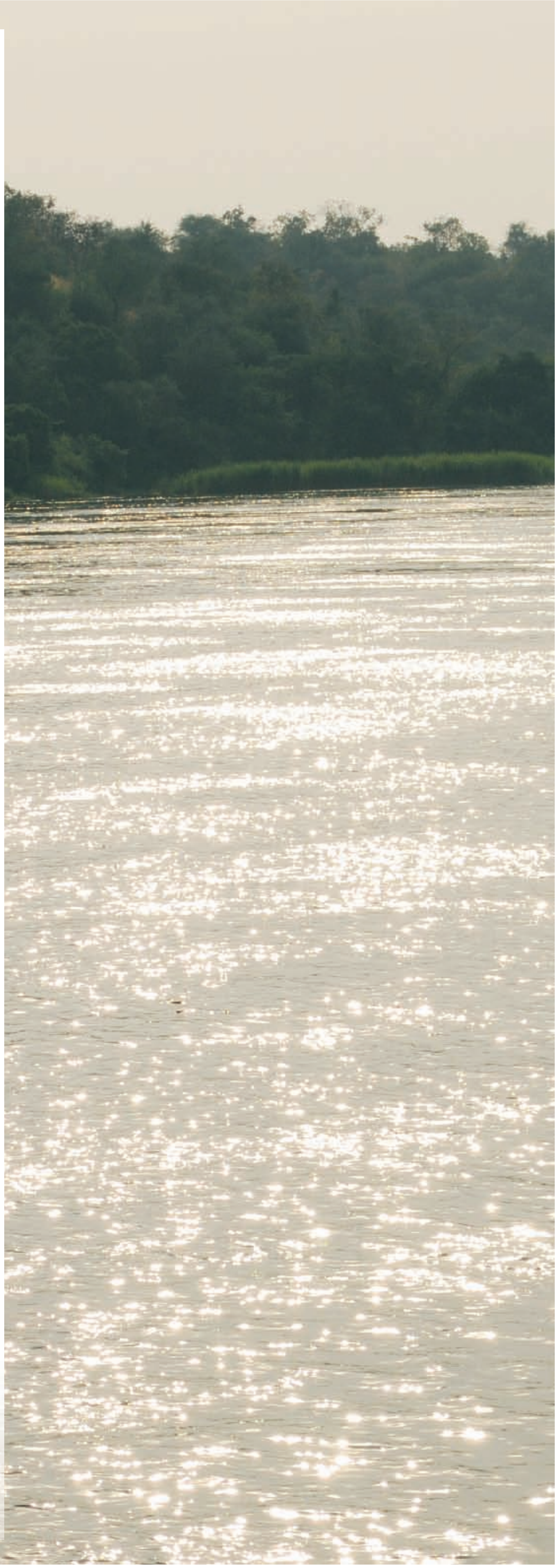
Another tourism enthusiast, Stephen Asiimwe also cautions that with the rising political\ climate, prudence should be taken by leaders not to inflame the environment and scare away tourists.

The country, according to minister of agriculture Tress Bucyanayandi must also do more to produce for export. "Exports bring in dollars," he says.

Uganda's biggest trading partner was South Sudan until two years ago when the world's newest state spiraled into another round of war.

This brought trade to a standstill as businesses closed and Ugandan exports could not enter because of the fresh round of war.

"We cannot continue to be a country of traders and expect things to just improve, we must do more," says a banker with DFCU in Kampala.



Forex bureaux

What is their contribution to the national economy?

By Tash Lumu

The initial contribution of forex bureau trading is in improving currency exchange by lowering the transaction costs for all volumes. The foreign exchange market works through financial institutions, and it operates on several levels.

Behind the scenes, banks turn to a smaller number of financial firms known as "dealers," who are actively involved in large quantities of foreign exchange trading.

Most foreign exchange dealers are banks, so this behind-the-scenes market is sometimes called the "interbank market", although a few insurance companies and other kinds of financial firms are involved.

> If the foreign exchange sector is not well controlled, the economy might become shaky

Here in Uganda, the foreign exchange market assists international trade and investment by enabling currency. For example, it permits a business in the United States to import goods from the European Union member states, especially Eurozone members, and pay euros, even though its income is in United States dollars.

A Bank of Uganda report "Current State of the Ugandan Economy", released in June 2013, sights that the foreign exchange sector remains vibrant with the only scare being the inflation rate, which the Bank of Uganda Governor, Prof. Tumusiime Mutebile says the bank has tamed.

"Therefore, Bank of Uganda will maintain an accommodative monetary policy, at least in the near term, but will remain observant of future inflationary developments and new information, and will stand ready to intervene to foster price stability. We will also intervene in the foreign exchange market

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in both directions, in order to stem foreign exchange rate volatility," Mutebile noted in the report.

Clearly, the challenge is the volatility. But what mechanisms has Bank of Uganda put in place to ensure that this is encountered?

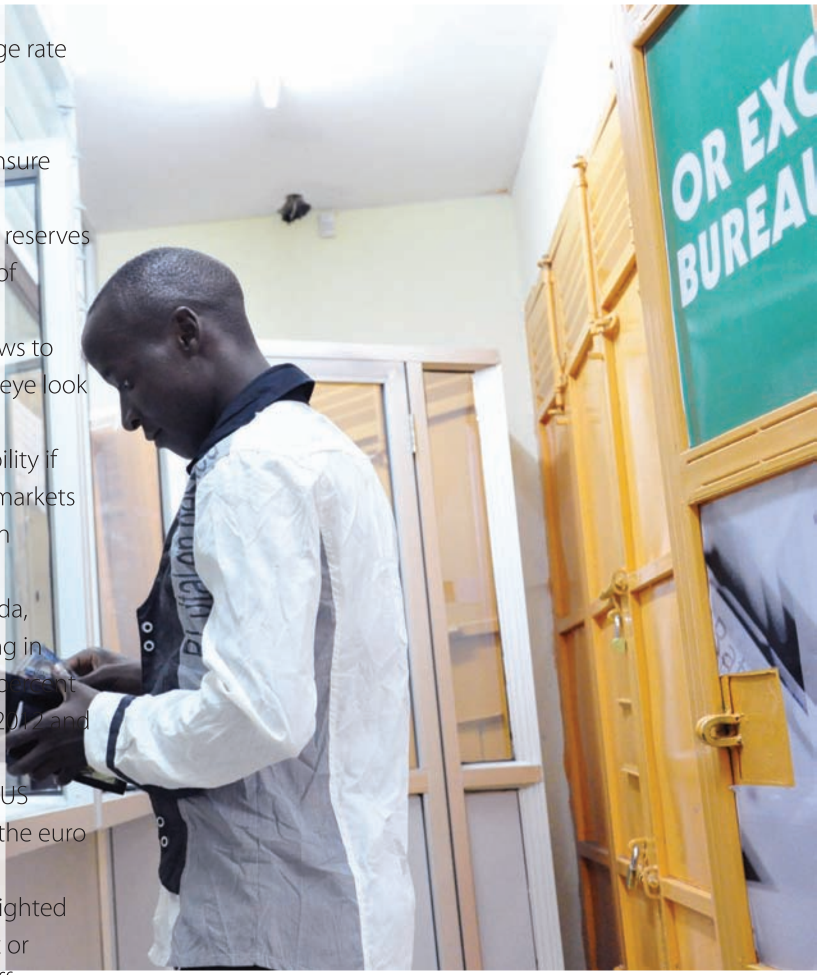
"Inflows could be used to build foreign exchange reserves and could lead to an improvement in the balance of payments," Mutebile said.

He, however, contends that the use of these inflows to boost the foreign exchange sector requires a keen eye look at the external factors.

"But they also present a risk to exchange rate stability if an unexpected reversal occurs. Foreign exchange markets have been primarily influenced by developments in Japanese monetary policy," he said.

This "unexpected risk", according to Bank of Uganda, emanates from the "extreme monetary policy easing in Japan [which] caused the yen to depreciate by 21 percent in real effective (REER) terms between September 2012 and April 2013."

But it is not the Yen only. "In the same period, the US dollar appreciated by 2 percent in REER terms and the euro by 4per cent," Mutebile said.



The Real Effective Exchange Rate (REER) is the weighted average of a country's currency relative to an index or basket of other major currencies adjusted for the effects of inflation. Now, if a country doesn't adjust to the REER effects, the foreign exchange sector goes in tatters, according to Bank of Uganda.

Bank of Uganda put the Reserves of foreign exchange and gold at $2.705 billion as of 31 December 2012.

So, if the exchange sector is not well controlled, the economy might become shaky.

To achieve this monetary discipline, Mutebile argues in the Bank of Uganda report that you have to be very cruel on inflation by applying measures that keeps it in check. And it is for this inflation control, that Mr. Mutebile was named the Central Bank Governor of the Year by a leading international investment group.

In a recent opinion about how to tame inflation, Mr Mutebile said maintaining low inflation is the main objective of the bank.

"Over the last 12 months, BoU has been quite successful in controlling inflation; the average annual rate of inflation during this period was 5.6 per cent," he said. "However, inflation was 6.9 per cent in September 2013, so our priority is to bring it back down to 5 per cent," he added.

But to say the list, taking a leaf from the Bank of Uganda State of the economy research report 2011, the current trends confirm that indeed Uganda, being a small open economy is exposed to developments and prospects in the global markets, thus the need to take necessary steps in irrigating sectors like the forex bureau trading.

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Regulating foreign exchange

Role of electronic receipts & how to comply with laws

By Roselynn Karatsi

There is no doubt a sizeable portion of the Uganda's foreign exchange income is diaspora remittances. And for any such foreign currency to be used in the economy it must undergo an interchange process which will most likely take place in a forex bureau.

This implies that lots of monies from different currencies go through Uganda's existing forex bureaus before it circulates through the economy.

Although decent, it makes forex bureaus vulnerable to lots of various trials among them money laundering traps.

But because of their immense role and ability to overcome such trials, the business keeps growing by day. A December 2014 Annual Supervision Bank of Uganda Report is clear on the magnitude of forex bureau business progress which is a year after year increment.

While in 2013 the number was at 248, it grew to 267 in 2014.

The report also reveals that the diaspora remittances have maintained an upward trend in the country over the recent past advancing the business even further.

However, concerns over remittances made through informal channels have arisen due to the global challenges of money laundering and terrorism financing.

This is coupled with the need to ensure efficiency in provision of money remittance services and collection of accurate statistical data on remittances.

Because forex bureaus are particularly vulnerable to money laundering and terrorist financing, due to the large amount of cash involved in their operations, Bank of Uganda has instituted various measures to regulate the forex flow in the market.

CENTRAL BANK REPORT

The report shows that the consultation process on the proposed amendments to the Foreign Exchange Act 2004 and the Foreign Exchange (Forex Bureaus and Money Remittance) Regulations 2006 was concluded as well as the key proposals include revision of the minimum capital requirements to cater for evolving risk profiles of these institutions, and proposals to strengthen the supervision of the institutions by providing for civil penalties."

- In particular, no officer or staff member of a forex bureau is permitted to deposit or accept Uganda shillings with intent to obtain or supply the foreign currency equivalent either wholly or in part at a future date.
- And the vice versa is true when one has to deposit or accept foreign currency with intent to obtain or supply the Uganda shillings equivalent of it either wholly or in part at a future date.
- Payments and receipts are a key feature as well. In fact that is why each time one exchanges a currency to obtain Uganda shillings they are presented with a Bank of Uganda official receipt or any other receipt approved by the Bank of Uganda in respect of the transaction.

For bigger foreign notes, (above $5000) indicating the source of funds on receipt of the transaction becomes obligatory.

Such measures include laws and requirements crafted by the regulator-Bank of Uganda, to cub instances of money laundering which could hurt the economy.

One of such is the introduction of AML/CFT enforcement mechanism. With this measure, all clients hat is it about….

Uganda Forex Bureau and Money Remittance Association chairman Lameck Kizza says that as stakeholders in the financial sector; they are in total support of AML/CFT enforcement considering the fact that it is meant to combat a common pertinent cause that touches security and safety of every individual in the country and worldwide.

"We consider ourselves front line agents in the enforcement process," says Kizza.

None the less, there are high costs in terms of fines incurred by forex bureau operators which stem from the consumers. For instance as the customers refuse to disclose detailed information about the transactions more so source of money and nature of their business as well as disclosing details of and relationships with the sender in cases of transfers, it becomes inevitably hard for compliance to occur and the bureaus feel the pinch.

"There is so much difficulty in convincing the public to disclose the sources of their funds, some of them refuse to submit their identity cards for proper identification during the transactions," cites Kizza.

The industry also grieves for the existence of illegal traders who operate on the 'black market' who make transactiosn and go unnotced.

"There is no active law enforcement agencies to curb the black market operators. As an association we have taken matters in our hands and instituted and financed a police team to identify, investigate and cause prosecution of the arrested illegal operators to serve as an example to the illegal traders," clarifies Kiiza.

Customers' insecurity while disclosing their names and details of the transactions, with suspicions of either being reported to URA or fear of the operator's intention to use the information for other purposes.

Instead these people walk out of the bureau to the illegal traders who ask for nothing.

Un- informed public about the whole system and process and why such information is collected. The reason as to why the customers act in owe/ surprise is because they are not in the know, about the Anti Money Laundering Law and its requirements/benefits. That's why despite the many explanations by the operators, customers just walk out of the bureaus and others feel offended by the whole process.

Ignorance of the law by the government agencies and authorities i.e the police, local government authorities at border points who currently authorize the public to engage in forex dealings with uniforms and protections of the police, yet they are not the proper authorities to license them for this business.

The emergency of Hawala, i.e in Dubai

The emergency of direct exchange of foreign currency for goods with the shop attendants most so, down town.

Most people currently have opted not to bank their money due to fear of loosing money or victimization.

Conduct of transactions under the table than above and such transactions have not been brought to book/open by the authorities.

Implications of the challenges

The above challenges constrain the efficient thread of compliance and enforcement of the AML/CFT hence failing the system as a whole.

Further, the existence of the black market is a mockery to the enforcement system because why should much pressure be enforced by the registered licenced institutions (forex bureaus) yet there is a big loop hole of the black market where the public/customers turn to for forex transactions, yet untouched.

Thursday, October 8, 2015

The licensed financial institutions are faced with the risk of becoming opaque in the future yet so instrumental in the AML/ CFT circuit.

Sensitization of the public about the AML/CFT and further constant trainings and follow- ups on these enforcing financial institutions is very much required in order to smoothen the operations and enforcement of AML/CFT.

Loss of business for the bureaus and if business is lost definitely how will the operators enforce the law. Black market then; will take the lead.

STRENGTH OF FOREX BUREAUS IN AML/CFT COMPLIANCE

The forex bureaus are at the grass roots of the whole process. In this way, the bureaus are at the reach of lay persons, right from their location, to their settings, diversity, and accessibility, a layman uses their services and so does the business man, the corporate, the politician to name but a few. Hence if the AML/CFT is to be enforced all possible avenues of default can be captured through the forex bureau and so can the culprits who launder money .

- Forex bureaus are also financial institutions where forex transactions and money transfers are carried out hence a targeted medium through which money laundering can be practiced.

Therefore engaging the forex bureaus in the enforcement circuit is paramount and the industry is willing to work hand in hand with the law for compliance and enforcement.

- The forex bureaus can easily monitor clients basing on how often they transact and trade (business cycles) and so can they identify illegal traders (through BSP monthly payments, remittances, to mention but a few); or suspicious traders.
- Following the numbers of bureaus in the country and their existence in all regions of the country, I believe all corners are covered to curb the vice and enforce the AML/CFT.
- Forex bureaus also have abilities of identifying and tracking illegal transactions basing on the direct interactions with the customer/public where information can be solicited from.

The interaction this time if noted isn't formal as compared to other financial institutions but instead its at simplified layperson level and so much informal to create room for the flow of information as desired by the operator. .

- Further the bureaus have abilities of identifying sources of wealth and funds through collective source of funds and they are able to know which persons/ organization to investigate basing on the market information, sourcing and extensive interaction with the public.


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