



1. Project Data :			
OEDID:	C2496		
Project ID:	P002962		
Project Name :	Financial Sector Adjustment Credit		
Country:	Uganda		
Sector:	Other Finance		
L/C Number:	C2496		
Partners involved :	None		
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Date Posted :	07/30/1998		

2. Project Objectives, Financing, Costs and Components :			
<p>The FSAC was the fifth of a series of adjustment operations since 1987 designed to support the Government's Economic Recovery Program. The operation, which was envisioned as the first of two focusing on improvements in monetary management and financial sector development was approved in 1993. It provided US\$ 100 million: two tranches of US\$ 45 million each were linked to policy actions and US\$ 10 million was to finance technical assistance. The specific objectives of the project included maintenance of macroeconomic stability; improved monetary policy; greater private participation in the banking sector; strengthened bank regulation and supervision; enhancement of the authority and capacity of the Central Bank; improvement of the performance of "problem bank," especially Uganda Commercial Bank (UCB) and the Cooperative Bank, through restructuring and recapitalization; development of the capital market and development of the banking, accounting and auditing professions .</p>			

3. Achievement of Relevant Objectives :			
<p>The policy and legal reforms was implemented satisfactorily, on schedule . Responsibility for monetary policy was transferred to the Central Bank, liberalization of interest rates began, and the legal framework for the financial sector was improved by passage of the new laws governing financial institutions, insurance companies, the capital market and the Bank of Uganda. However, institutional reforms proved more difficult than envisioned during appraisal . Upgrading the Central Bank's capacity to carry out monetary policy and to supervise commercial banks also took longer than expected. Restructuring the problem commercial banks in preparation for privatization apparently did not have the requisite public support and creation of the Nonperforming Assets Recovery Trust was delayed . As a result, disbursement of the second tranche of the credit was delayed from August 1994 until February 1997. During this time, there was a change of strategy and it was decided to privatize the UCB as is and to prepare a new restructuring plan for COOP Bank. A 49% share in UCB was sold in 1997.</p>			

4. Significant Achievements :			
<p>This project supported major strengthening of capacity for monetary management and a strengthening of the financial system. Government ownership of financial institutions was substantially reduced and private sector involvement has been encouraged . Remaining and new financial institutions seem to be on a sounder footing .</p>			

5. Significant Shortcomings :			
<p>The project design was overly ambitious and Bank staff underestimated the resistance to restructuring UCB and overestimated the capacity for institutional strengthening in the Central Bank .</p>			

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Partial	Modest	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	

Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

This project demonstrates once again the difficulty inherent in strengthening public enterprises . The preferred strategy is to move as quickly as possible to privatization . A further key lesson that emerges from this project is that institutional development inevitably takes longer than anticipated and adjustment operations do not provide adequate time for capacity buildup to show significant progress . Furthermore, in this connection a strong emphasis on consensus-buildup in all affected institution should occur during project preparation and appraisal .

8. Audit Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR :

The ICR is satisfactory.