

BANK OF UGANDA



Opening Remarks by Michael Atingi-Ego
Deputy Governor, Bank of Uganda

At the 27th Annual Seminar of the Institute of
Certified Public Accountants of Uganda

Imperial Resort Beach Hotel,
Entebbe, Uganda

Wednesday August 31, 2022

**The President of the Institute of Certified Public Accountants of Uganda,
Members of the Council,
The Secretary/Chief Executive Officer of the Institute of Certified Public
Accountants of Uganda,
Heads of Government Agencies, Financial Institutions and other Private
Sector Institutions,
Members from Academia,
Distinguished Invited Guests**

Ladies and Gentlemen

Good morning to you all,

Allow me to, first, thank both the President and CEO of the Institute for Certified Public Accountants of Uganda (ICPAU) for the invitation to officiate at this opening of the 27th Annual ICPAU Seminar. The Institute has shared a longstanding and profound relationship with the Bank of Uganda, particularly in the areas of training, capacity building and advocacy for improved financial reporting across the industry. It therefore gives me great pleasure to speak to all of you this morning.

Ladies and gentlemen, the call to increase resilience is hardly new. Following the global financial crisis in 2007-08, the policy arena featured increasing calls for resilience. Now though, the chorus has become almost deafening, as a result of the global COVID-19 pandemic and current shocks related to

geopolitical conflicts and climate change. I therefore applaud the Institute for organising this seminar under a topical theme - "*Resilience in a Dynamic Environment*"- which resonates with current times.

In simple terms, resilience refers to *an ability to rebound*. The famous poem by Jean de La Fontaine titled "*The Oak and the Reed*" provides a metaphor from nature which gives a clear perspective on resilience. The **oak** is robust; it is mighty and looks indestructible in the face of normal and strong winds, but it breaks when the storm becomes too severe. Once it has fallen, no recovery is possible. By contrast, light breezes bend the **reed**. But when a strong storm erupts, the reed declares: "*I bend but do not break.*" That phrase incorporates the essence of resilience. The reed, always in motion, might look vulnerable, but it bounces back when the storm is over. It is much more resilient than the oak because of its *ability to rebound*.

The global COVID-19 pandemic presented us with the first major test of the post-financial crisis reforms to regulatory standards. Here in Uganda, we stress-tested our banks rigorously for safety and soundness, to ensure that they could support the economy through the hard times without breaking like 'the oak'. Indeed, we tested to make sure this support could continue through even harder times, and the answer was positive. The resilience built-up through prudent macroprudential policy over the years following the financial crisis put the financial system in a better position to absorb the shock from the pandemic. This matters greatly because having a resilient financial system meant that business lending could be sustained. We went further to provide for accommodative policy measures to ensure that the

financial institutions had access to liquidity even as they re-structured performing loans that had been impacted by the COVID-19 pandemic.

In managing the pandemic, a mix of ex-ante and ex-post policies and instruments ensured that the financial system behaved like a reed, instead of an oak. Interestingly, experience has shown that low-income countries tend to have more ex-post policies and instruments in place, relative to ex-ante ones. The pandemic showed us that it was time to change this thinking, as the shocks ahead will be easier to absorb and manage if the fundamentals are sound *'before the fact'*. In fact, we now need to ensure that we are ready for new challenges, perhaps “building better for the future”.

Ladies and gentlemen, the need to be mindful of the environment in our efforts to increase resilience cannot be overstated. As we all know, climate change is already having a profound effect on our planet, and the extreme domestic weather conditions in the form of floods and drought over the past few months have heavily impacted the local communities and the nation at large. For example, as a result of the drought, we have seen food crop inflation soar to 16.5 percent in July 2022, from the lows of 0.7 percent seen in February 2022.

Inevitably, transitioning to an environmentally sustainable low carbon economy will have significant implications for the financial system. At the central bank, we have increased our own focus in this area within our newly launched 5-year strategic plan, particularly in relation to financing of a sustainable economy. We shall be working with financial institutions to

promote ESG standards in our financial sector to positively impact on long-term sustainability in the value chains of our economic sectors. By incorporating these sustainability issues, the *'bottom line'* of financial institutions will reflect the creation of shareholder value beyond profitability. As a matter of fact, I was ecstatic to read the Institute's feedback report from the 2021 Financial Reporting Awards, which strongly recommended **sustainability reporting** at the Central Bank. I also understand that the global accountants' fraternity has already put this agenda at the forefront, with the formation of the International Sustainability Standards Board to spearhead the development of global reporting standards for incorporation into the accounting regulatory framework. The accountant will therefore have a very critical role to play here, not only at the Central Bank, but across all financial institutions, public sector entities and other businesses.

In promoting ESG aspects into the financial sector's activities, the concept of Governance also comes to the fore. The promotion of good governance practices is not only important at the private sector level but is also critical at the public sector level as it promotes economic resilience. Research has shown that accountable public authorities, who pursue just distribution of benefits enhance the adaptive capacity of vulnerable groups and societies. The auditors and accountants have a critical role to play in uplifting good governance practices. This is through among others, ensuring that boards and their committees are well constituted and operational, with robust risk management frameworks and business continuity plans in place. The role of auditors and accountants should, in fact, go beyond this. They need to get

more involved in validating business risk assumptions and models, testing them for robustness and ensuring that they are frequently recalibrated. Additionally, they need to be more involved in the preparation and review of all business continuity plans. Consequently, with strong oversight of governance in place, the resilience of the nation, its businesses and the people against unforeseen shocks will be augmented.

The other key message in our theme today touches on the dynamic environment we live in today, which is being powered by technological innovation. Financial Technology (FinTech) is reshaping financial services in Africa, through providing us with infinite possibilities to achieve shared and inclusive growth. We have all witnessed the transformation that mobile based payments have had in the region, first in Kenya with M-Pesa and now Mobile Money in Uganda. Our role as industry leaders and professionals is to make sure that the possibilities that come with FinTech continue to be explored and effected; that FinTech firms provide products that are solving actual problems; that the services are priced fairly; and that consumers are protected.

An ACCA global survey, released in May 2022, showed that Africa has a major role to play in FinTech, and that it was the region that placed the most trust in FinTech products, relative to traditional financial services. Ironically, it also showed that Africa was the most concerned region about consumer protection and cybersecurity risks. The survey therefore brought out the need to prioritise secure **data management** and **cybersecurity**, at the heart of frameworks for government and regulatory approval of digital products

and services offered by the private sector. For the private sector, this implies investment in infrastructure, staff capacity and customer education to shore up defenses against this emerging threat. Without such investments, we risk losing this high confidence and trust placed in FinTech products in Africa.

As a central bank, adapting to this changing financial and risk landscape will remain a priority over the next 5 years. Our interests will be on policy development to enable safe, long-term value from FinTech, in a way that places financial inclusion at the core. The benefits of innovation must be shared across the population, particularly with the disadvantaged. Initiatives on internal capacity development, supervision of 'disruptive' technologies especially in our payments eco-system, enhancing consumer protection, promoting data-driven decision making and uplifting innovation through innovation hubs and the regulatory sandbox will be critical. Like most central banks around the world and in Africa, the concept of a digital currency shall also be acutely studied, with input from industry experts and other stakeholders.

I see a critical role for you, accountants in the maturing of FinTech. As the scale and significance of this field increases, there is a need for robust financial management, and reliable, independent assurance of information to drive trust in this field. These are still relatively early stages, and the opportunity is there for the accounting community to be part of shaping events. I also understand that the International Federation of Accountants (IFAC), who we shall hear from this afternoon, has put in place considerable resources to support its member organisations to make the most out of

technology. I thank them for these progressive efforts and encourage our Institute to leverage such resources, to be in a better position to navigate the dynamic environment we find ourselves in.

Ladies and gentlemen, although the COVID-19 pandemic and current geopolitical conflicts generated a dizzying series of harsh social, political, and economic firsts, such shocks will not be the last. These shocks have had significant influence in re-shaping the way we work (remote working), the way we meet (virtual meetings) and the way we transact (e-payments). While we cannot anticipate every type of shock, we can adjust and continue to build resilience to enable us bounce back. Benjamin Franklin said that *“by failing to prepare, you are preparing to fail”*. Resilience is what prevented the financial system from failing during the pandemic, and it is what is keeping the system afloat in the current challenging economic environment. We need to continue working together as industry leaders and professionals to build both financial and economic resilience, for sustainable growth that ensures socioeconomic transformation.

As I wrap-up my remarks, allow me to quote the Bible. The book of Proverbs 24:16 says: *“...for though the righteous fall seven times, they rise again, but the wicked stumble when calamity strikes”*. Let us prepare well and reflect the ways of the righteous, and not the wicked. In doing so, let us be mindful of the following verses 17-18 *“Rejoice not when thine enemy falls and let not thine heart be glad when he stumbles; Lest the Lord see it, and it displease him, and he turn away his wrath from him”*. So let us do all it takes to help others rise from their falls and stumbles.

On that note, and without further ado, it is my honor and privilege to officially open the 27th Annual ICPAU Seminar, under the theme, *“Resilience in a Dynamic Environment”*.

Thank you very much for having me and I wish you fruitful deliberations.

God Bless You All

Michael Atingi-Ego

Deputy Governor