



# CSBAG BUDGET NEWS BRIEF



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Advocating for a People Centered Budget that Dignifies Humanity



## Lessons for Uganda from the failure of Crane Bank and what should be done going forward

**“Following the discussion about the takeover of Crane Bank by Bank of Uganda, in this Edition, CSBAG shares Andrew Mwenda’s opinion which states that this result provides the government an opportunity to restructure the rules of commercial banking so that banks can be able to help local businesses grow just like Crane Bank did.”**



Andrew M. Mwenda the Managing Director of Independent

narrowly defined parameters.

I admire BOUs strict regulation of the banking sector that has protected depositors from greedy bankers and reckless borrowers. However, I am now aware that these short-term gains are outweighed by the costs our current banking laws impose on the economic

Transformation of our country in the long term. Multinational banks tend to rely on laws set by their parent companies in Johannesburg, London, New York, etc. That are inherently skeptical about the credit worthiness of Africans. Thus, businesses and individuals in Uganda find it hard to get credit from them.

Crane bank succeeded because its owner, Sudir Rupharelia, built his business from the bottom up on the streets of Kampala. He acquired a good social network with local business persons and excellent institutions and knowledge of their workings. This newspaper is living testimony of Crane Bank’s role in the growth of local businesses. When we set up the Independent in December 2007, our company broke-even in the first five months. However, because we were small and new, many of our suppliers insisted we pay them in advance. Yet our customers especially advertisers, were large and reputed cooperation’s that insisted on 45 to 60 days’ credit; some even took 90 days to pay us. Hence although we were profitable, we had cash flow shortages.

We tried to get a line of credit from Barclays and Standard chartered banks in vain even though we had accounts with them. Crane bank gave us an overdraft without demanding criteria “which we did not have” because they knew their customers personally. This allowed us to remain in business, grow and become a major employer, tax payer and exporter. How may potentially great businesses have died due to lack of access to credit?

BOU and Government may deny the current economic down turn. But that is like burying one’s head in the sand. In 2013, BOU

increased the central bank lending” from 12% to 23% in circumstances where 98.3% of all loans were on variable interest rate. Commercial banks reacted by increasing their prime lending rates from 17% to 33%. Many loans began to fall.

In 2014, StanBic bank wrote off Shs 175 Billion. In 2015, Standard chartered bank wrote off Shs 165 Billion. Crane Bank wrote off Shs 115 Billion. Many other banks had big write offs as well. Only four out of 25 banks grew their profitability in 2015. Since April, BOU had asked several banks to recapitalize. Today, many banks are under stress due to non-performing loans. Of course, the likes of StanBic and StanChart can afford big write offs and recapitalize. Crane, owned by a local business tycoon with limited financial power could not.

Yet Crane Bank gave Uganda More Value. Sudhir is heavily invested in Uganda-in real estate, import and export trade, ware housing, hotels, schools, a university, a flower export business, etc. Stanbic and Stan chart do not invest in the country they repatriate all their profits. They don’t even own the offices in which they are head quartered. If they failed, they would just pack their bags and go. Surely if these are not mercenary banks, what are they?

BOU is doing an excellent job in enforcing existing rules. But these rules are meant for rich countries. Look at the world’s fastest growing economy, China; or Africa’s fastest growing economy, Ethiopia; over 90% of the banking sector is owned locally and largely by the state. South Korea in the 1960’s to early 1990’s, or western Europe and North America, during their transition from Agrallian to industrial societies had banking rules and practices similar to those of China or Ethiopia today. Lesson; What you need to grow from poverty is different from what you need once you are rich.

The takeover of Crane provides the Uganda Government with an opportunity to restructure commercial banking. Crane needs Shs 500 Billion in liquidity. I suggest Government rises it and takes a majority stake in the bank. It should run it on private sector principles and make borrowing accessible to Ugandans by maintaining the quality of service that Crane Bank its Customers.

For Uganda to transform from a backward to an advanced nation, it must be willing to take big risks. One such risk is to believe that our people can borrow, grow their businesses and pay back. They must be given credit without absurd requirements that characterize our banks today. Without such risks, we shall continue to replicate, but we shall never transform, the structures of our Economy.

This article was originally published in the Independent Magazine on 28th October 2016 authored by Andrew Mwenda.

### PICTORIAL VIEW OF OUR KEY ACTIVITIES IN OCTOBER



Citizens of Kibuku district listening to their district budget on WASH on 12th October 2016 in Kibuku district.



Meeting Members of Parliament to discuss the status of Uganda’s economy on Thursday, 27th October 2016 at Golf Course hotel in Kampala.



Rama Omonya OXFAM Uganda, Julius Kapwepwe CSBAG Board Chair, Lydia Namuli, FIDA Board Member and Ogwapus Moses, Ministry of Finance during the parallel session on Women and Tax on Friday 21st October 2016.



Meeting with the Uganda Banker’s Association to discuss the challenges around cost of credit in Uganda. © |CSBAG 2016