



Policy implications to digital financial access to micro credit

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East African countries are making strides in financial inclusion, however, despite the achievements so far, the region still lags behind and much more needs to be done to grow financial intermediation.

According to the World Bank's World Development Indicators, Uganda ranks lowest in the East African region with regard to domestic credit delivery from the formal financial sector.

As at the end of 2016, Uganda's private sector credit as a percentage of GDP stood at about 17 per cent in comparison to Kenya's 43 per cent, Tanzania (20 per cent), and Rwanda (19 per cent). Private sector credit as a percentage of GDP for the entire sub-Saharan Africa stood at 59 per cent, higher than all of the East African countries.

Through the mobile phone, technology has provided the region another window to increase the outreach of financial services.

Take Grace Akumu (not real name), a vendor in Nakawa market as an example. With a small capital base, the amount of produce she could buy and sell within a day was very limited despite the prevailing market's demand and supply conditions.

Her available financing options for expansion were limited. Applying for a traditional loan from a financial institution was a lengthy and usually difficult process. Her income stream was unstable and she did not possess collateral that was acceptable to the financial institutions.

Mobile micro loans, however, have provided her a quicker financial solution that has supplemented her small capital base and is more suitable to her circumstances.

With more frequent borrowing and re-payment, she has been able to develop a rich credit history, which has subsequently increased the amount of mobile credit she can access. This has helped her grow her incomes and business acumen;



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and she is now considering scaling up as well as diversifying her business.

However, the digital financial solutions to micro credit access have not come without challenges, the biggest of which has been the cost of this type of credit, compared to traditional loans from financial institutions.

This is an area through which technology; digitalisation in particular, can play a key role in addressing. The cost of credit can generally

be broken down into four components: cost of funds; overheads; cost of bad debt; and a profit margin.

So what are the implications for policy? First, the integration through use of technology of most aspects of financial services delivery can help us start to address this cost. Already, the integration of the mobile phone with the national identity card database has placed a legal identity and a face to the mobile phone borrower.

In a similar way, policy makers should consider leveraging technology to enable mobile phone access to the collateral registry, including registration of collateral security interests by creditors. Quick access to the registry enables a lender to verify existence of the collateral and to register the creditors' interests on the collateral.

Second, finalisation of the work on chattels registry and its integration to loan delivery could be vital to micro and small enterprises.

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