

## **Emmanuel Tumusiime-Mutebile: Introducing innovative services to meet credit needs in Uganda**

Speech by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the year-end stakeholders' function and sharing of CompuScan's vision 2012, Kampala, 8 December 2011.

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The Board of Directors CompuScan Information Technologies,  
Managing Director CompuScan CRB Limited,  
Representatives of the Development Partners (World Bank, KfW, GIZ),  
Representatives of the Participating Institutions (PIs),  
Distinguished Guests,  
Ladies and Gentlemen.

I would like to welcome you all to this event to launch officially the CompuScan and CompuScan's Vision 2012. I would also like to thank the Board of Directors and Management of CompuScan CRB for inviting me to preside over this function.

Credit markets are plagued by informational problems, and these problems are especially acute in developing economies. Informational problems raise transactions costs, often to such an extent that potential borrowers are denied access to credit in the formal sector. The adverse consequences of informational imperfections for financial markets were analysed in the 1970s by Joseph Stiglitz and George Akerlof; work for which they received the Nobel Prize. The etymology of the word "credit" is the latin verb "credere"; to trust or believe. Unfortunately trust alone is rarely sufficient to ensure that a creditor will ever get her money back; hence credit decisions must be made on the basis of accurate, reliable data. Without such data creditors will be reluctant to risk their money.

A key challenge for policy makers concerned with financial market development is how to design policy interventions which can mitigate informational imperfections and thus reduce their negative externalities. The kernel of the challenge is how to ensure that accurate and reliable information about those which wish to raise finance can be acquired in a cost effective manner by those who provide finance and bear the risk of doing so. Credit Reference Bureaux provide an institutional solution to the problem. A well functioning Credit Reference Bureau mitigates information related market failures because it is compulsory for all participants in the credit markets to provide and share information, in circumstances where they may have private incentives not to do so. Furthermore, the pooling of information in a Credit Reference Bureau reduces the social costs of acquiring information. This was the motivation for the Bank of Uganda, with the support of development partners – KfW, GTZ and the World Bank – to introduce a Credit Reference Bureau in Uganda.

Our development partners have helped to subsidize the Credit Reference Bureau system in its initial phase of operation. Although the services of the credit reference bureau are provided to private enterprises, driven by the profit motive, a subsidy in this case was warranted because of the social benefits which a well functioning credit reference service can generate, which exceed the private benefits accruing to individual financial institutions. Nevertheless, now that the institutional framework for the credit reference service has been established, the costs of providing credit reference services will fall and hence there will be much less of a need for ongoing subsidy.

In the three and a half years since CompuScan commenced Credit Reference Bureau operations in Uganda, in May 2008, great progress has been achieved. All supervised financial institutions – commercial banks, credit institutions and deposit taking microfinance institutions – are participating. A total of 640,000 financial cards have been issued to the customers of financial institutions; these are all borrowers or prospective borrowers. Nearly

50,000 credit enquiries are made to the Credit Reference Bureau every month. Furthermore, strong safeguards have been built into the system, stipulated through regulations issued by the Bank of Uganda, to protect the accuracy and confidentiality of information given to the Credit Reference Bureau and to ensure that it is only used for the purposes for which it is intended.

To remain competitive, Credit Reference Bureaux worldwide must not stand on their laurels; they must introduce innovative services to meet the evolving needs of their clients. Compuscan is currently introducing a Credit Scoring System which is intended to facilitate quicker and better decision making by the participating financial institutions.

We are now nearing the end of the first major phase of Credit Reference Bureau operations in Uganda. Looking ahead, we hope to expand the scope of coverage of the Credit Reference Bureau to include credit providers which are not supervised financial institutions; for example utility companies, mobile phone companies and SACCOs. We will also open up the market for credit reference services to competition after September 2012, when the rights of Compuscan to be the sole Credit Reference Bureau expire. Competition should benefit customers of the credit reference services because of the incentives it will give service providers to reduce costs and introduce new products.

I would like to commend Compuscan for its achievements over the last three and a half years in successfully launching the credit reference bureau in Uganda and for now introducing the Credit Scoring System. I would also like to thank all of our development partners, especially KfW, GTZ and the World Bank, who have supported the project through both financial and technical assistance.

Thank you for listening.