

Credit referencing in Uganda: Unlocking opportunities for growth



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Uganda has a diverse range of credit providers, including commercial banks, credit institutions, and Microfinance Deposit-Taking Institutions (Tier 1 to Tier 3 financial institutions), Deposit-Taking Microfinance Institutions, SACCOs, Self-Help Groups, Community-Based Microfinance Institutions (Tier IV microfinance institutions), digital and money lenders. Like many countries across the world, credit providers in Uganda also find that lending can be very risky and challenging where information about a borrower's ability and willingness to repay a loan that is the creditworthiness of a borrower, is not readily available, or is inaccurate or inadequate. This lack of credit information not only poses credit risks, but also limits borrowers' access to credit and contributes to the imposition of high-interest rates and higher borrowing costs.

To manage credit risk and address

challenges related to the lack of credit information, lenders utilise various tools to assess an individual's creditworthiness before offering loans or financial services. One of the most important tools in this process is the Credit Reference Bureau (CRB).

A CRB is an entity that collects, stores and disseminates credit information on individuals and businesses to legally authorised credit providers for purposes of credit risk assessment. Credit information mainly includes positive and negative loan repayment history. Credit information is gathered from various sources, including among others, banks, microfinance institutions, and other credit providers. The credit providers engage in a reciprocal arrangement, where they share borrowers' credit information with each other through the CRBs. In exchange for sharing this data, the credit providers benefit by using the information to

assess credit risk more effectively when making lending decisions.

The CRB system ensures that lenders have access to accurate and comprehensive credit histories, improving their ability to evaluate potential borrowers' creditworthiness.

In addition to the above rationale, CRBs have numerous benefits such as mitigating credit risk and fraud by lenders using information held by CRBs. Lenders make informed decisions about who they lend money to and under what terms. This reduces the likelihood of defaults and non-repayment of loans, which minimises financial losses.

CRBs provide a platform where different lenders can share credit information about their borrowers, for the benefit of all lenders. This credit information sharing facilitates the development of information capital to increase information symmetry for the benefit of all lenders.

CRBs help borrowers get loans by sharing their credit history with lenders. This enables lenders to make quick and timely decisions. It also facilitates distant transactions such as, internet transactions and banking. If a borrower has a positive credit history, banks and other financial institutions are more likely to offer you a loan. However, poor credit behavior can make it more difficult to secure a loan in the future. For individuals or businesses that have a strong credit history, credit reference bureaus provide a mechanism for demonstrating financial responsibility.

Borrowers with good credit histories

can get better terms from lenders, such as lower interest rates and larger loans and can build a good reputation. This can help them get better terms from lenders in the future. Good credit information can also be used by the borrower as collateral to secure a loan.

CRBs allow borrowers to take their credit history from one financial institution to another, which makes lending markets more competitive and innovative. By keeping track of an individual's borrowing and repayment patterns, CRBs encourage people to borrow responsibly.

CRBs help in creating a well-regulated and transparent lending system. By having a central repository of credit information, Uganda's financial system becomes less prone to fraud and abuse. It helps ensure that lenders can trust borrowers and make more accurate lending decisions.

CRBs were introduced in Uganda in 2008, and during their launch by Bank of Uganda on 3rd December 2008, the late Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda then gave the background to the introduction of CRBs as:

"The absence of a CRB in Uganda has been a major bottleneck to the expansion of the volume of private sector credit. Indeed, Ugandan firms – large, small and medium enterprises consistently cite limited access to credit as one of the greatest barriers to their operations. Up to now, the infrastructure for information sharing and unique borrower

identification has been non-existent. The Participating Institutions (PIs) (Commercial Banks, Credit Institutions and Microfinance Deposit-taking Institutions) had no way of checking and sharing information on the credit history of borrowers. Therefore, PIs have continuously been exposed to high credit risk on account of inadequate information on borrowers' creditworthiness. This has inevitably resulted in increased cost of borrowing, thereby making credit more expensive than it would otherwise have been."

The legal existence and operation of CRBs in Uganda is covered majorly under the Financial Institutions (Credit Reference Bureau) Regulations of 2022 ("2022 CRB Regulations"), a Regulation that replaced the 2005 CRB Regulations 2005, that limited CRB usage to financial institutions regulated by Bank of Uganda.

Licensed and supervised by the Bank of Uganda, CRBs complement the central role played by banks and other credit providers in extending financial services within the economy. Currently Uganda has four licensed CRBs, these include: Creditinfo Uganda CRB, Metropol CRB, gnuGrid CRB and Armada Credit Bureau.

Currently, under the 2022 CRB Regulations, CRB services can be used by different credit providers including Non-Deposit Taking Microfinance Institutions, SACCOs, Self Help Groups, Community Based Microfinance Institutions, Money Lenders and any other credit providers or service providers giving goods and services on credit. To promote a legally sound, trustworthy and transparent credit information sharing and usage framework, the 2022 CRB Regulations also provide for obligations of all parties involved in the CRB system.

Whereas the 33 financial institutions regulated by Bank of Uganda were already integrated in the CRB system by virtue of the 2005 CRB Regulations; currently, CRBs, with the support from other industry stakeholders are

walking the journey of integrating all the other credit providers including Tier 4 Microfinance institutions and Money Lenders also known as Accredited Credit Providers (ACPs) into the credit information sharing mechanism under the CRBs.

Joining the CRB space as an ACP involves a straightforward process, which includes new user accreditation, data testing, and final contracting. The accreditation steps ensure that the new user complies with operational, regulatory, and administrative requirements for data exchange, ultimately safeguarding consumer data while maintaining soundness within the CRB operations.

While some progress has been made in onboarding new credit providers onto the CRB system, much remains to be done. The ongoing onboarding process for ACPs has faced a few challenges, some of which stem from knowledge gaps around credit information sharing, fragmented legal frameworks, ACP limited resources to oversee key onboarding activities and a lack of understanding regarding the value of CRB services.

The CRB Association, along with key stakeholders such as the Ministry of Finance, Bank of Uganda, industry associations, and development partners, are working together to address these challenges and facilitate the widespread adoption of CRB services.

We encourage all credit providers to take full advantage of CRB services and engage in credit information sharing. The importance of CRBs cannot be overstated, as their use will provide access to more accurate and comprehensive data, allowing for more informed decision-making and realizing the benefits outlined above.

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