

CONCEPT NOTE

LINKING INFORMAL AND FORMAL FINANCIAL SERVICE SECTORS THROUGH MOBILE SOLUTIONS

WHERE: UGANDA / EAST AFRICA
PARTNERING CSO: DANCHURCHAID

It is estimated that more than half of the World's adult population, approximately 2 billion, do not have a registered account at a financial institution. In Uganda over 15% of the adult population (2.6 million) are said to be financially excluded from the formal economy.

Business case

Currently in Uganda there are limited options for linking savings and loan groups (VSLAs) to formal financial institutions. At the same time, banks are busy closing down the few rural branches they have set up.

A survey carried out by FinAccess in 2013 indicates that over one third of Ugandans continue to use informal services, and it is globally reckoned that VSLAs are the backbone of the informal financial economy in developing economies.

However, as VSLAs gain momentum both in membership and finances, their members have started requesting financial options that complement group services. They have expressed need to borrow more than their groups' funds can offer, save more for longer terms and would also like to transfer and receive cash for produce, business development and household purposes.

The challenge is that cash is risky and that the groups' transaction history is invisible to the formal institutions who might be able to provide more services if they had insight into transaction activity and other data.

Developing a "multiple-party mobile-based financial authentication mechanism" built around a digital platform that would grant equal access and control to a number of individuals in a group, would help operators reach out to the savings groups. Associated with a group account, such a mechanism could enable tracking of individual credit histories and payment behaviour.

It would enable the bank to provide more favourable credit terms to disciplined savers and thereby reduce their risk exposure, creating opportunities for greater access to credit over time.

Expected output

This initiative envisages a solution where a company develops a digital mobile solution replacing the traditional safe with three locks.

The challenge is that mobile financial services are tailored to individual SIM cards secured by a single PIN number; for a group to feel secure depositing money into this virtual system, they need group-level security. The major challenge is that the rural areas have poor telecommunication network connections, limited sources of power and above all high levels of illiteracy.

The envisaged product should be built around solar power and have battery life of up to 5 days.

DanChurchAid's role

DCA facilitates and coordinates the partnership and further builds the capacity of the VSLAs on using the digital platform and provides additional financial education and entrepreneurship.