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Microfinance After Hours Seminar Series

Expanding the Frontier: Microfinance Innovations and Strategies

CREDIT INFORMATION SYSTEMS: HOW DONORS ACHIEVE SUCCESS

Presentation by the DAI Group

Tuesday, May 16, 2006



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Outline

- What is the problem we are trying to solve?
- How do we define success?
- Who are the stakeholders in credit information markets?
- The spectrum of credit information solutions
- Examples of success and failure
- Success factors
- Questions for the panelists



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What is the Problem?

Limited access to financial services



Resulting from (in part) asymmetric credit information



Why?

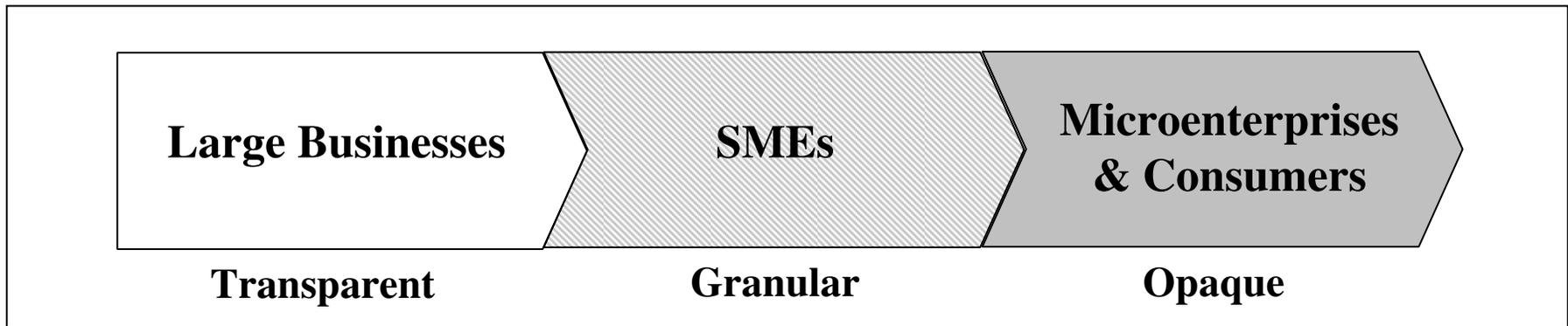
- Lack of a supportive legal and regulatory framework
- Lack of trust between stakeholders
- Technological constraints
- Misunderstanding about credit information



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Value to Donor Objectives

Credit Information is most helpful to underserved segments of the credit market, namely: SMEs and micro-enterprises





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Success- what is it?

- Competitive supply of credit report products including as much information as possible (not sensitive data)
- Limited bank ownership of credit bureaus
- Widespread use of credit reports for all credit transactions by all FIs
- Greater financial stability and understanding of over-indebtedness
- Broader access to credit by businesses and individuals
- Consumers recognize the value in moral collateral

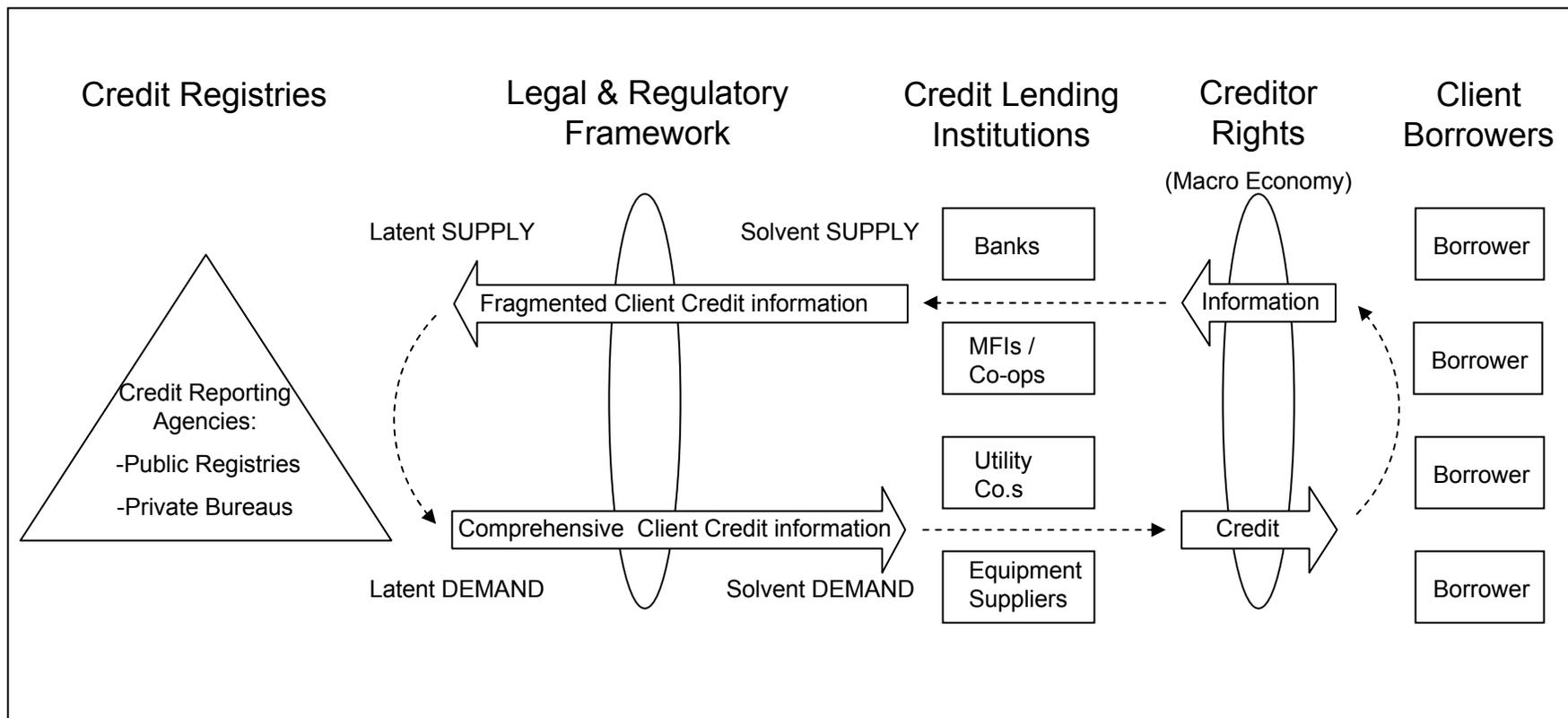


IFC Defined Measures of Success

- Both positive and negative credit information (for example, on payment history, number and kinds of accounts, number and frequency of late payments and any collections or bankruptcies) is distributed.
- Data on both firms and individuals are distributed.
- Data from retailers, trade creditors or utilities as well as financial institutions are distributed.
- More than 2 years of historical data are distributed.
- Data on loans above 1% of income per capita are distributed.
- By law, borrowers have the right to access their data.



Stakeholders





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Activity Design: Stakeholder Considerations

- Financial institutions
- Regulatory bodies
- Credit information service providers
- Consumers/ borrowers



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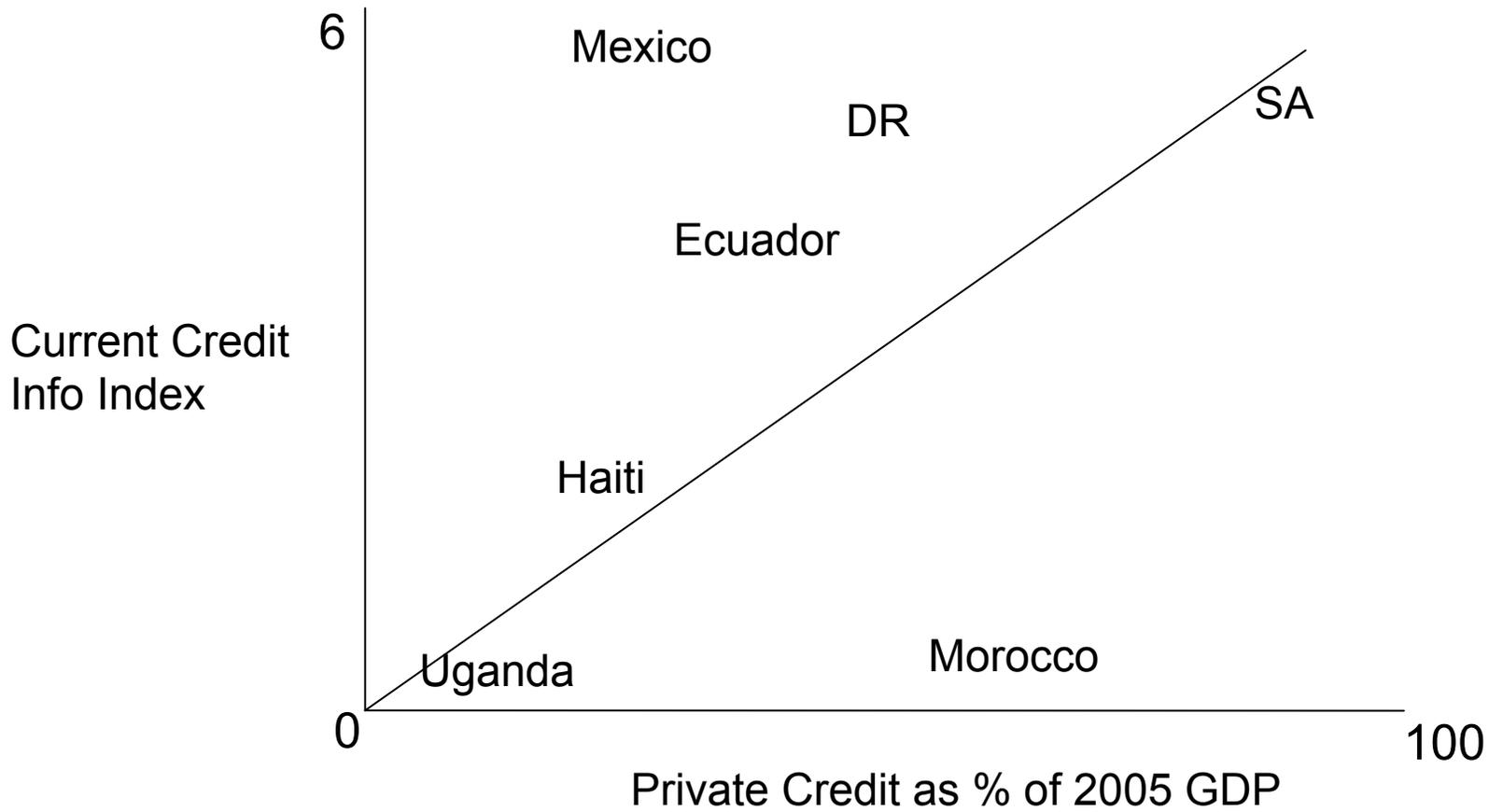
Activity Design: Information Continuum

1. Pure frequency / number of loans
2. Negative information
3. Negative information plus
4. Basic i.e. negative & positive information
5. Full financial info & non-financial (inc. bureau scores)
6. Cross border information sharing



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Activity Design Evolution



Source: World Bank & Doing Business 2005 Indicators



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Case of Ecuador

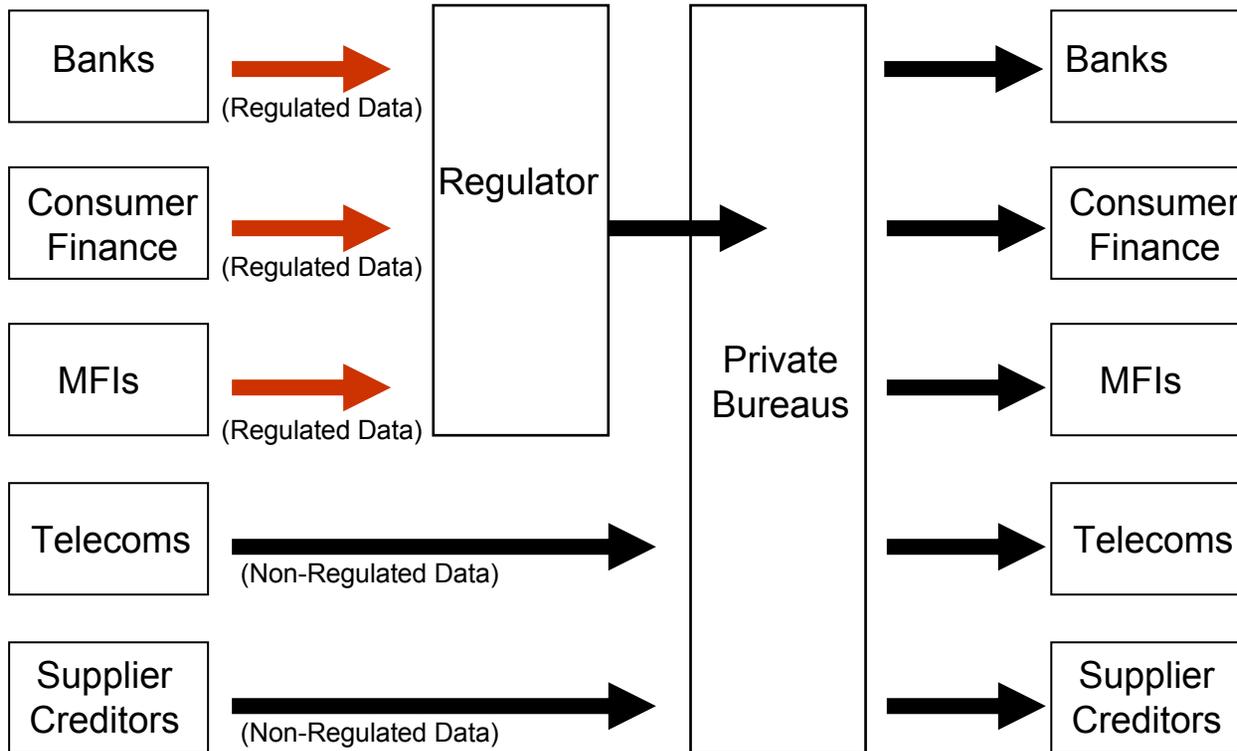
General market description	GDP/ capita = \$4030. Pop 13 mill. Private credit as % GDP = 27%
Credit info model	Private – driven top-down Credit info index: 5
Credit info market evolution	Current: 4 private bureaus Previously: Public to 8 private bureaus Drivers: USAID & Superintendancy
Elements of success	Strong incentives: financial sector crash & increased credit supply and over-indebtedness Conducive regulatory framework Transparent bidding process Strict licensing requirements
Lessons	Legal void is ultimately risky and consumer awareness has consequences



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The Ecuador Model

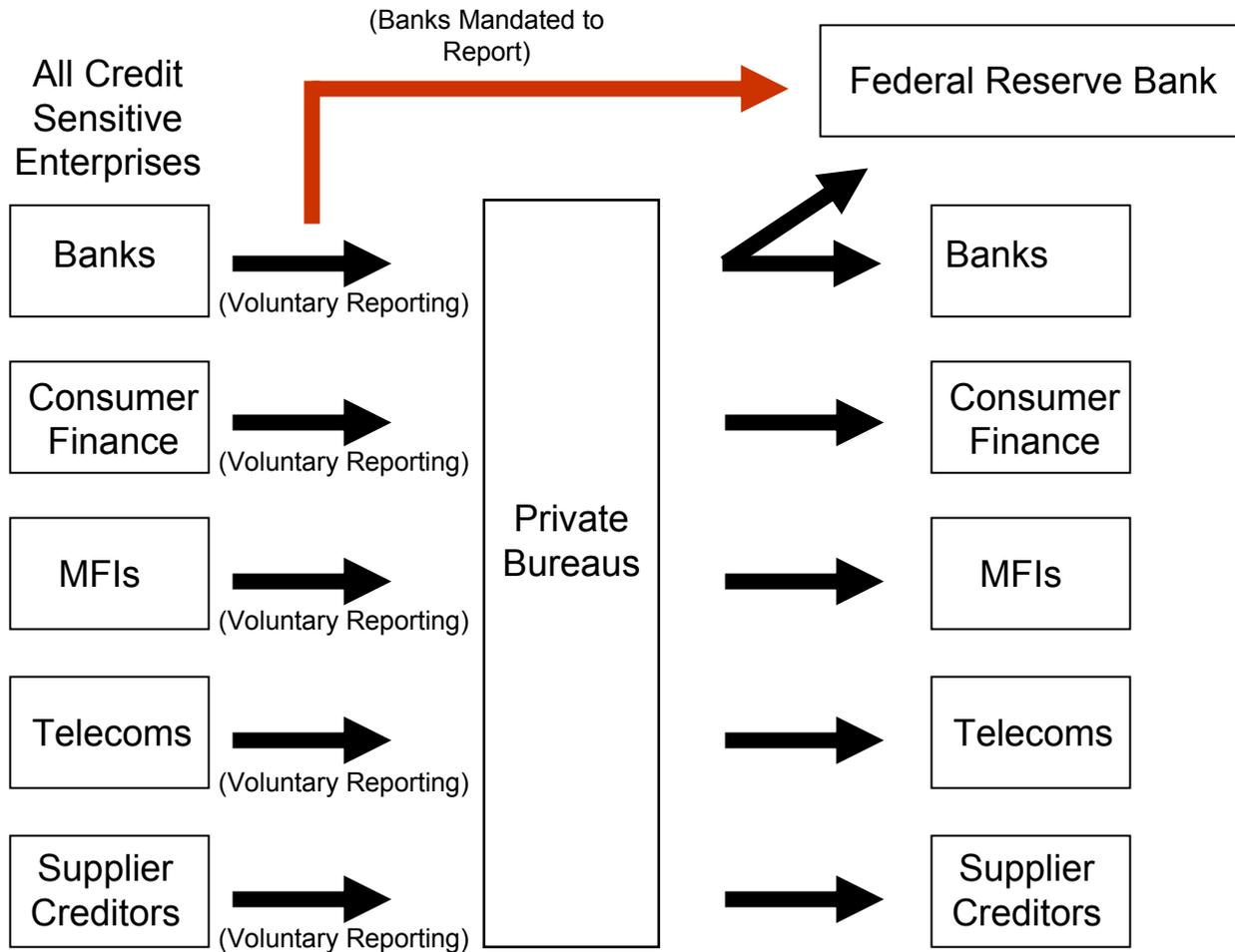
All Credit Sensitive Enterprises





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The United States Model





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Case of Haiti

General market description	GDP/ capita = \$1,470. Pop 8.4 mill. Private credit as % GDP = 16%
Credit info model	Private – driven, bottom-up Credit info index: 2
Credit info market evolution	Bad debtors list shared among the top 10 MFIs
Elements of success	A functioning industry association Competition among lenders Increased levels of cross-indebtedness
Lessons	Appropriate technology solutions for the market



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Case of South Africa

General market description	GDP/ capita =\$10,810. Pop 46 mill. Private credit as % GDP = 76%
Credit info model	Private (bottom-up) & public for micro-finance sector Credit info index: 5
Credit info market evolution	Current: 2 primary & several secondary private bureaus & info agents & 1 public registry Public registry drivers: Regulator
Elements of success	Advanced technology & sophisticated financial sector Strong legal system Good understanding amongst most stakeholders Slow evolution according to needs
Lessons	Consumer education required – negative perceptions Lack of trust amongst banks but not other players Apply 80:20 principle – don't get too complicated



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Case of Uganda

General market description	GDP/ capita =\$1,450. Pop 25.3 mill. Private credit as % GDP = 5%
Credit info model	Publicly owned & privately managed Credit info index: 0
Credit info market evolution	Legislation in place, regulation drafted Open tender process
Elements of success	Strong donor support Study tours to understand and learn from success stories
Lessons	Increased levels of understanding needed Don't get too complicated – align with market capacity & needs Credit market small Takes a long time



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Factors of Success for Interventions

- Comprehensive market assessment up front
- Appropriate solutions for the market needs
- Conducive legal & regulatory environment
- Donor commitment and in-country presence
- Transparent bidding process and strict licensing
- Good understanding & conceptualization of credit info systems



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Thank You