



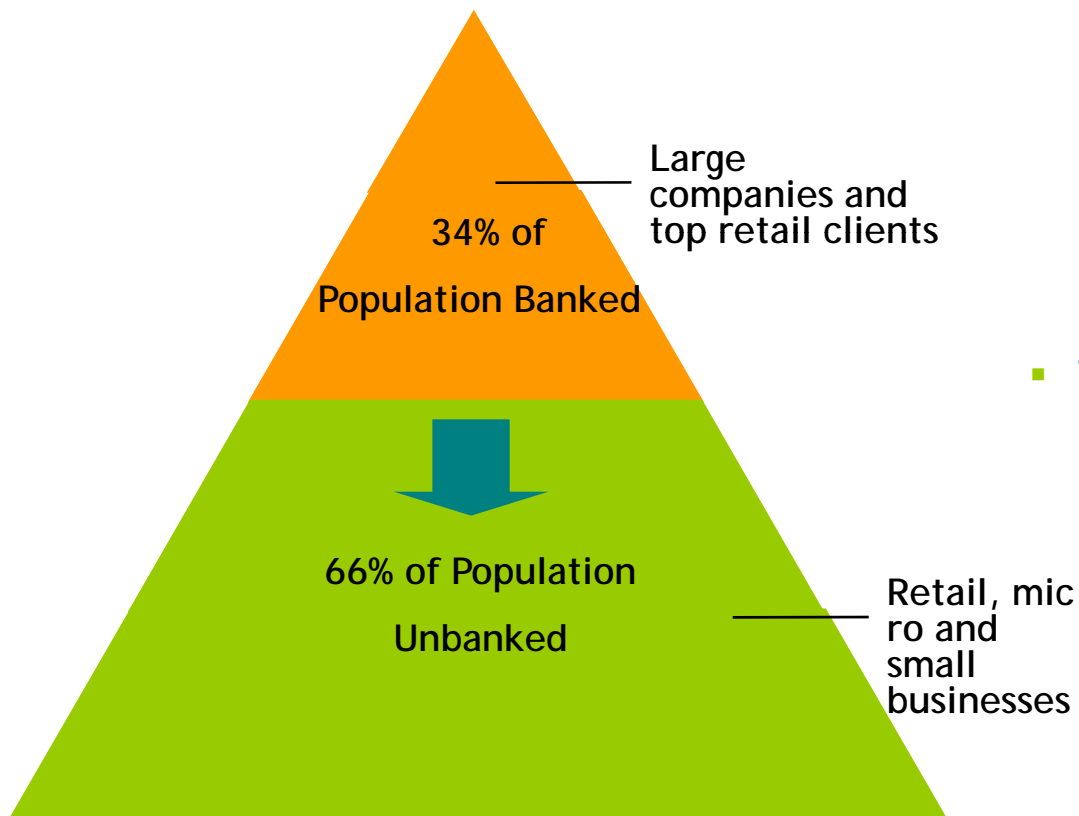
**International
Finance Corporation**
World Bank Group

The Role of Credit Bureaus in Improving Access to Finance and the Benefits for MFIs and their Clients

August 2009

Peter Sheerin
Credit Bureau & Risk Management Advisor
IFC- CAI Advisory Services

Objective of local financial markets development: Increasing Access to Finance (A2F) for the underserved



- The bottom of the pyramid remains underserved:
 - Banking sector penetration of 5% to 25% vs. 70% to 90% in developed markets
 - Banks tend to focus on large commercial clients and top retail clients
- Targeting the underserved:
 - *Microfinance* (up-scaling): Total reach: 70 million clients globally
 - *Banks* (down-scaling): Requires retail skills and systems
 - *Non-bank financial institutions* (diversifying): Leasing, factoring, housing, insurance

IFC Priority: expanding (A2F) in the interest of end-users...

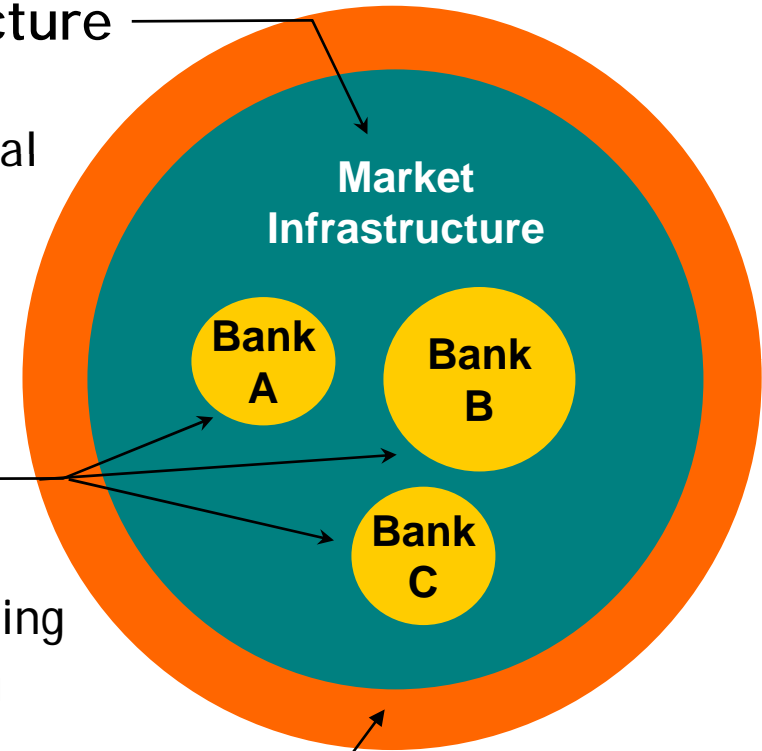
Creating and improving financial infrastructure

- Credit bureaus, payment systems and collateral registries
- Legal and regulatory framework
- Close collaboration with World Bank/IBRD

Working with financial institutions

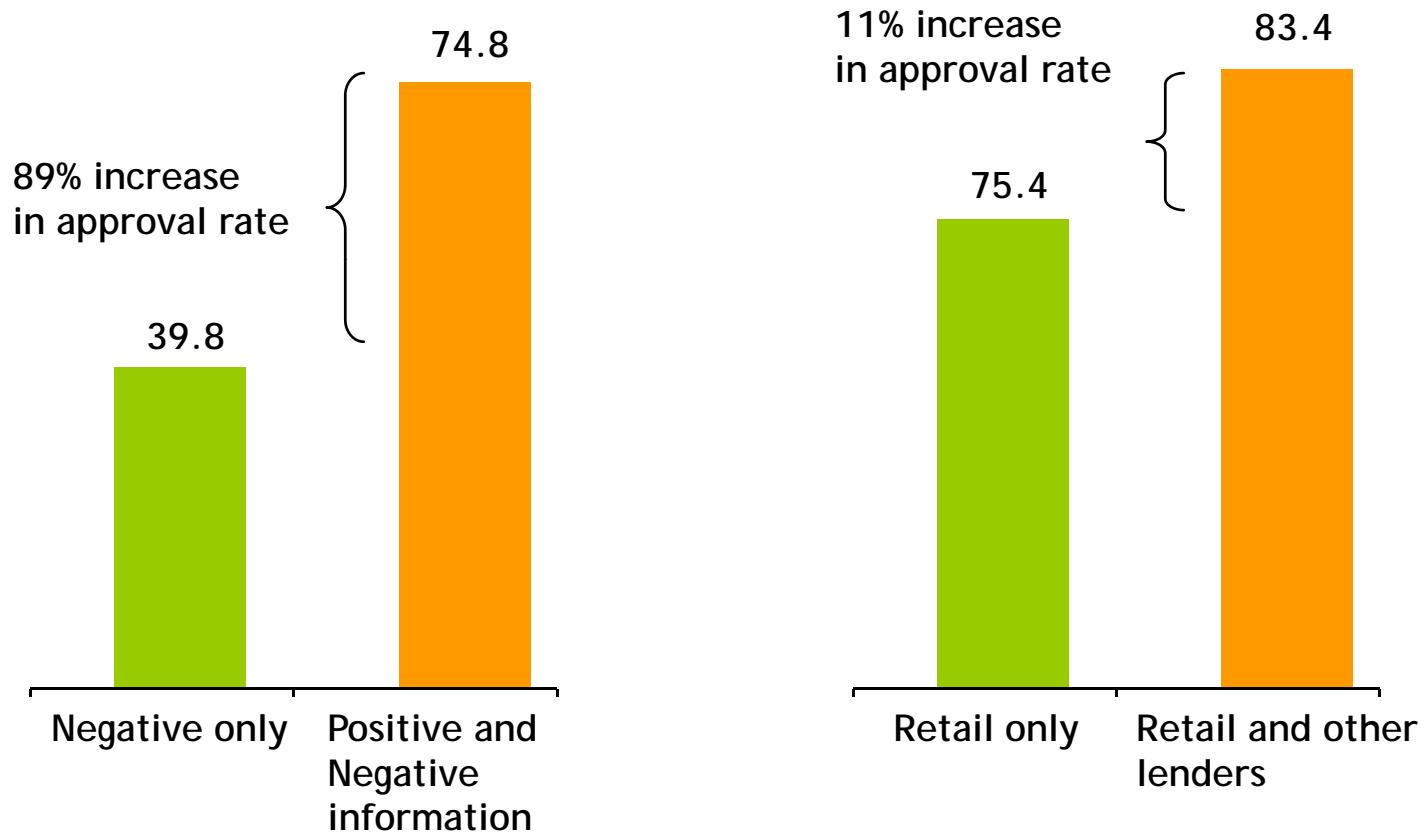
- Retail/SME banks, microfinance, housing, leasing
- Comprehensive, long-term institution building programs
- Synergies between investment and advisory services

Measuring impact on the End Users



Broader information sharing helps more people and businesses access credit

Percent of Applicants who Obtain a Loan

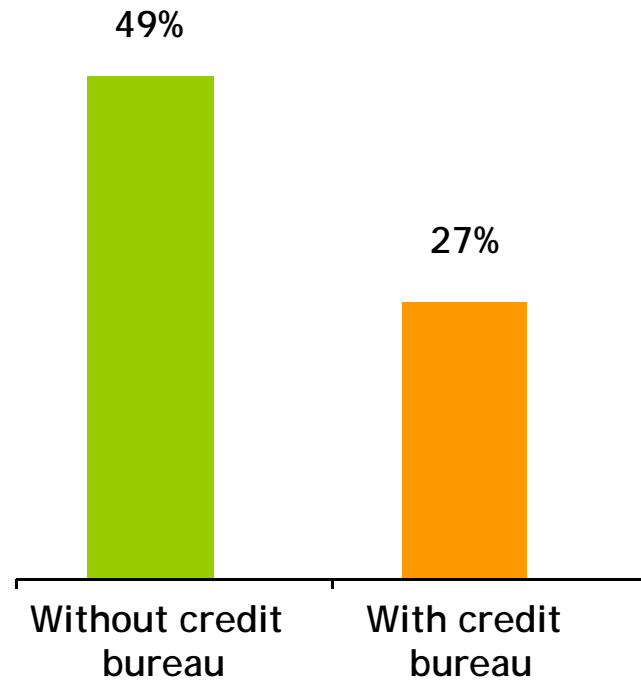


Source: Barron and Staten (2000). Figure shows the simulated credit availability assuming a target default rate of 3%.

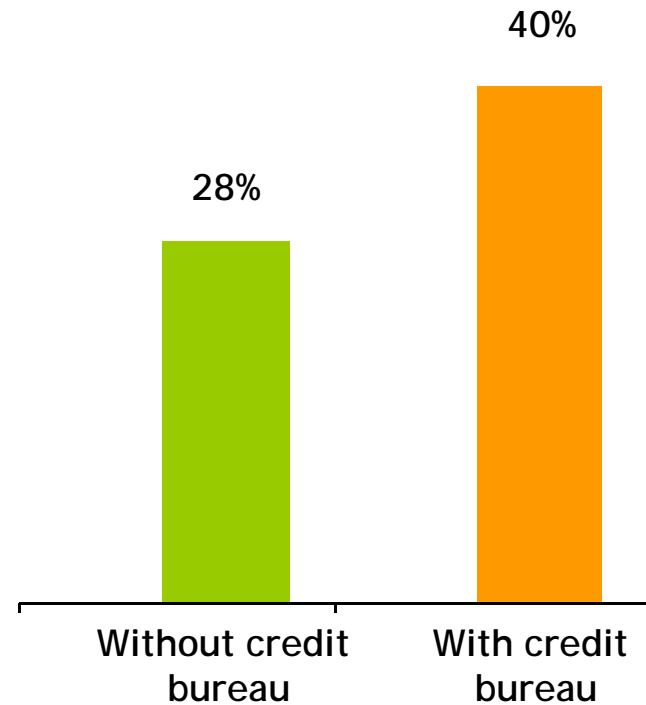
Small firms benefit from credit bureaus

Estimates based on data on 5000 firms in 51 countries

% of Small Firms Reporting High Financing Constraints



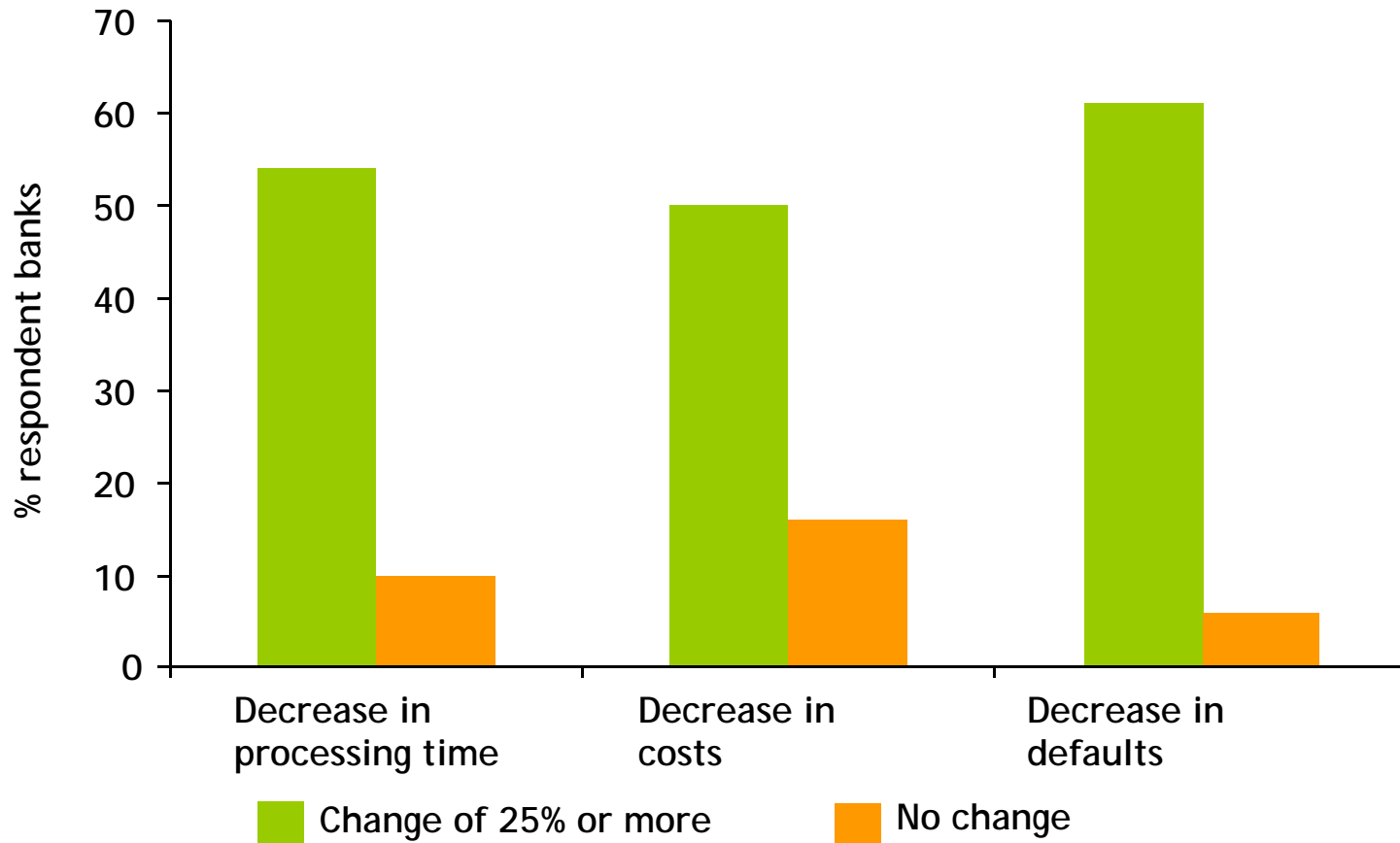
Probability of Obtaining a Bank Loan for a Small Firm



Source: Love & Mylenko (2003).

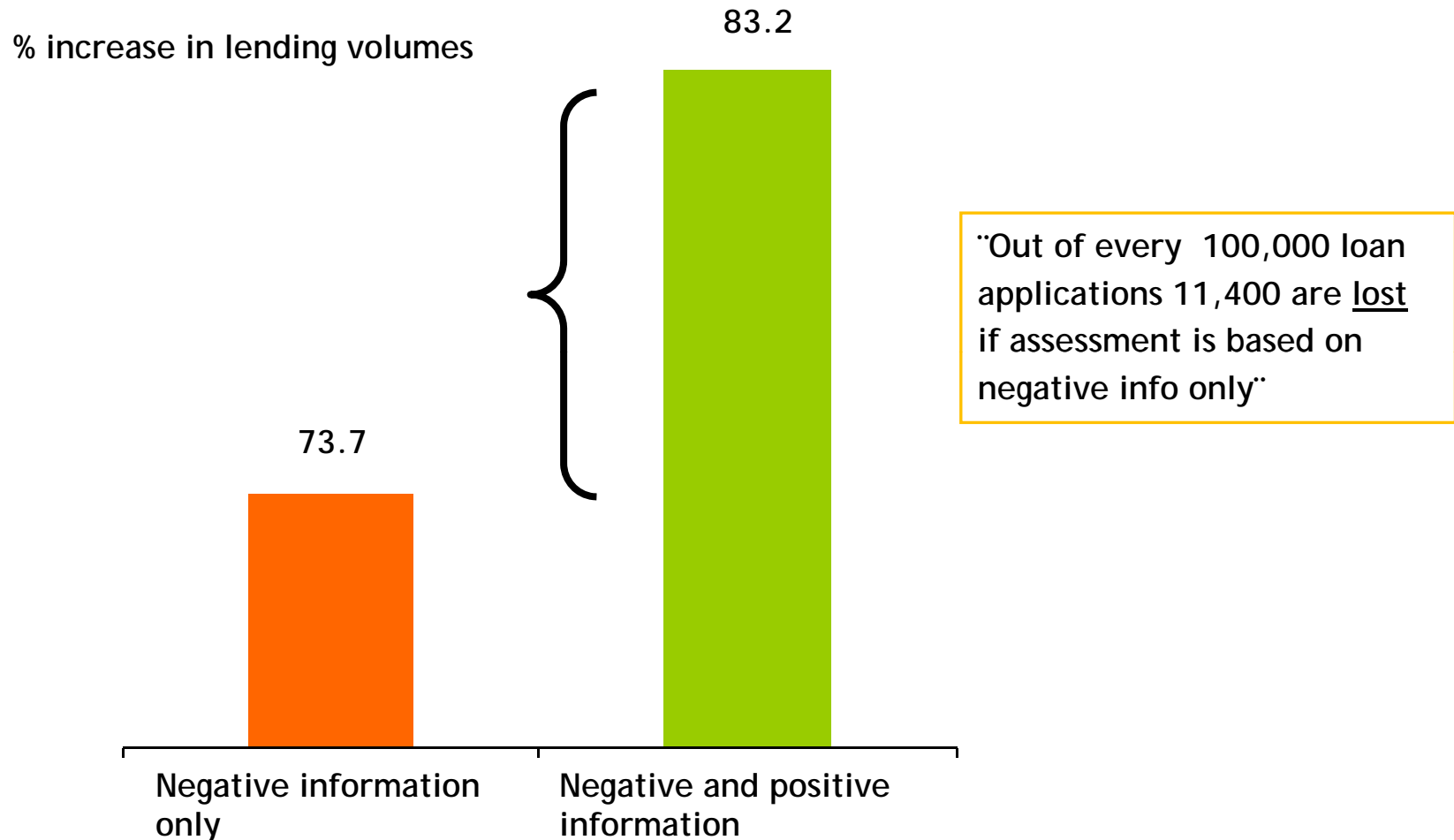
Full information sharing improves credit granting

Bank Assessments of the Impact of Credit Registries



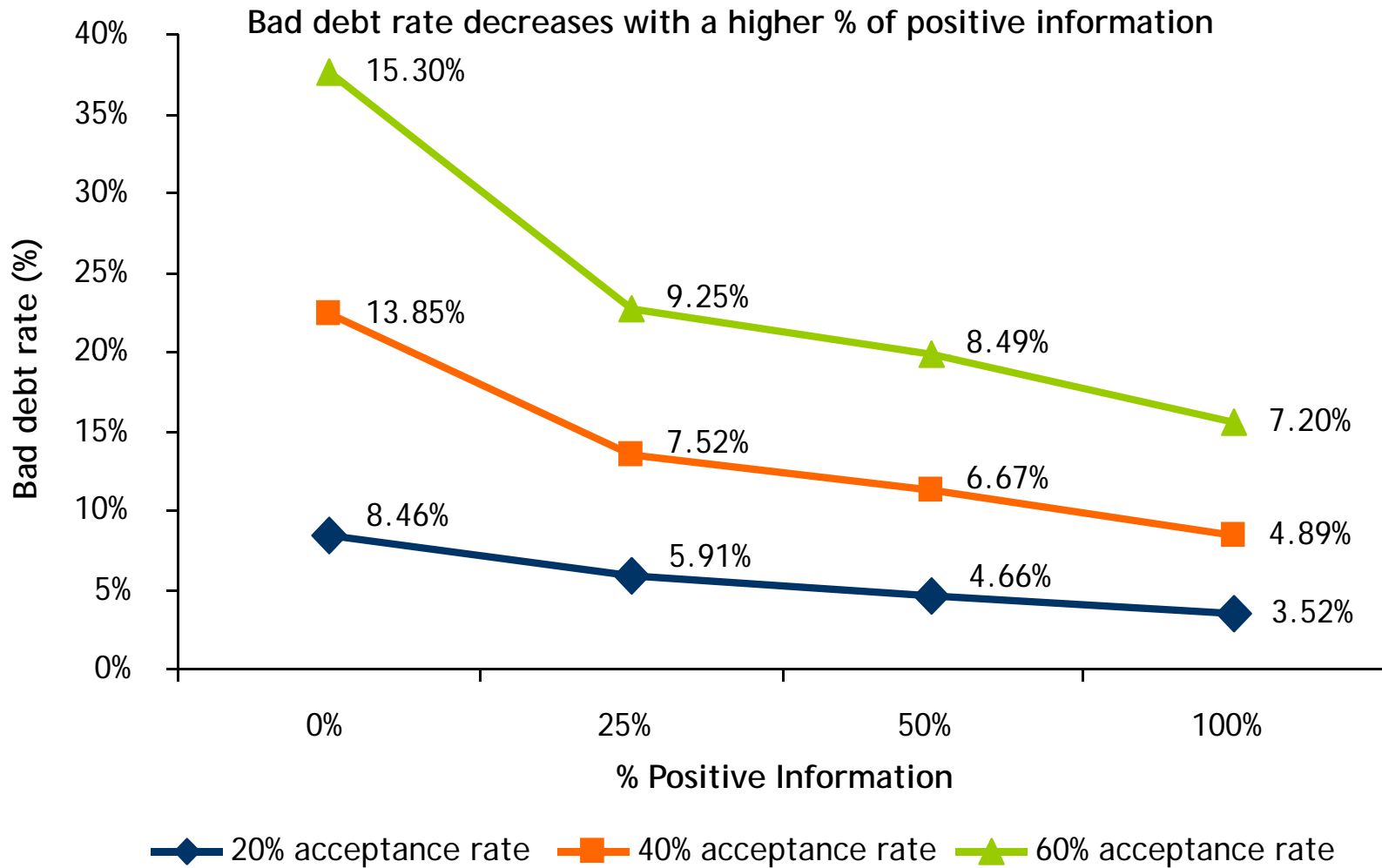
Source: Doing Business in 2004, based on World Bank surveys of banks in 34 countries in 2001-2002.

Full information sharing increases access to credit



Source: Barron and Staten (2000). Note: Figure shows the simulated acceptance rate assuming a default rate of 4% overall

Other Credit Bureau benefits: bad debt reduction



Source: The Benefits of Wider Participation in Full-file Credit Reporting in Latin America and the Costs of the Status Quo, PERC, April 2007

Other Credit Bureau benefits: increased access to credit



Source: The Benefits of Wider Participation in Full-file Credit Reporting in Latin America and the Costs of the Status Quo, PERC, April 2007

Ecuador:

The experience of MFIs benefiting from joining a bureau

Background:

- In Ecuador there are regulated and non-regulated MFIs
- More than 800 MFI are not regulated
- They are generally small and rural, in total represent 40% of the market.
- Being non-regulated they are not obligated to share credit information

Red Financiera Rural:

- RFR is the Ecuadorian MFIs' association
- RFR objectives: MFI market/product development, funding, training
- RFR associated MFIs have over 560,000 clients
- Most associates are non-regulated MFI
- In 2005 RFR started: "Regional service of credit information project" (SERVIR project)
- The project was financed by IICD (Holland) and open to RFR 's members and non-members

Project Objective:

- Start information sharing between non-regulated MFI and a PCB to:
 - prevent over indebtedness
 - increase access to credit
 - increase efficiency in credit underwriting approval
 - decrease the level of default rate, operational costs, and start portfolio monitoring

Profile of the participants: MFIs and micro entrepreneurs

MFIs (lenders)

- Particularly Credit Unions, cooperatives, and NGOs
- Regulated and non-regulated (most non-regulated and rural)



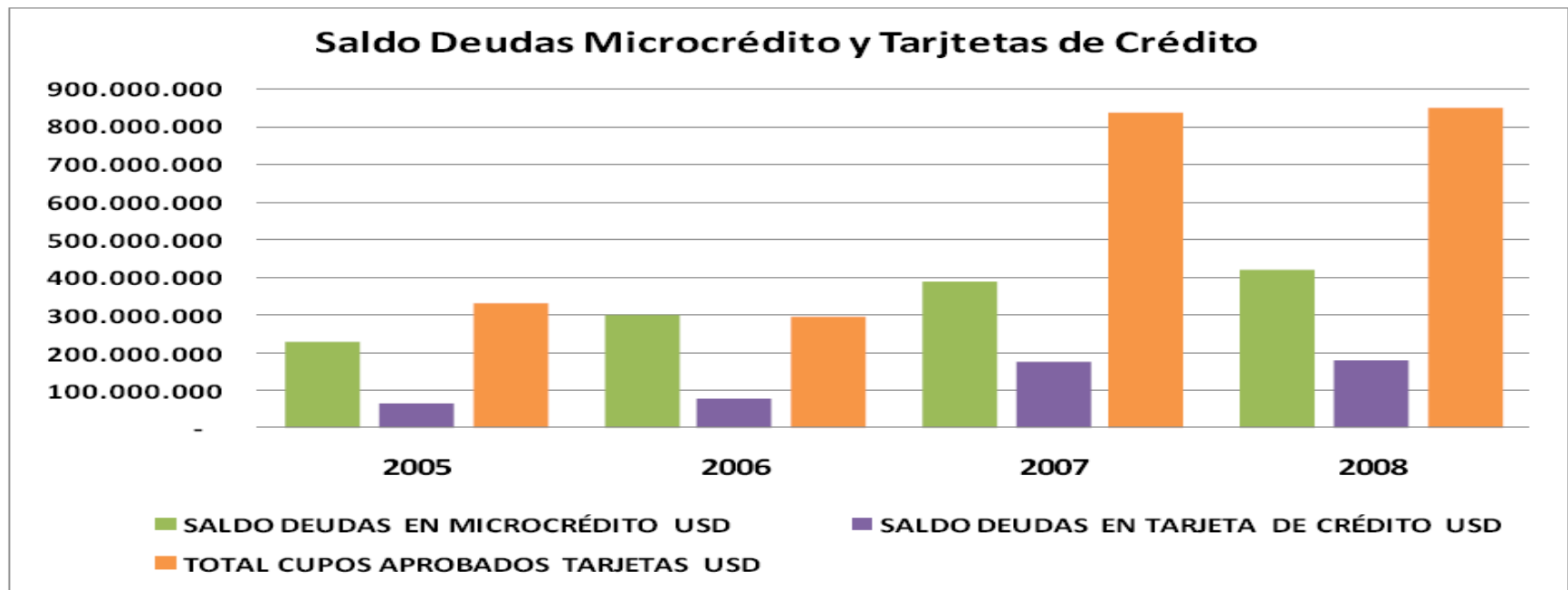
Micro entrepreneurs (clients)

- 80% rural, 15% urban marginal, 5% urban
- Most of them indigenous
- Most of them living in poverty conditions
- Most of them are small producers.



How have MFIs been convinced?

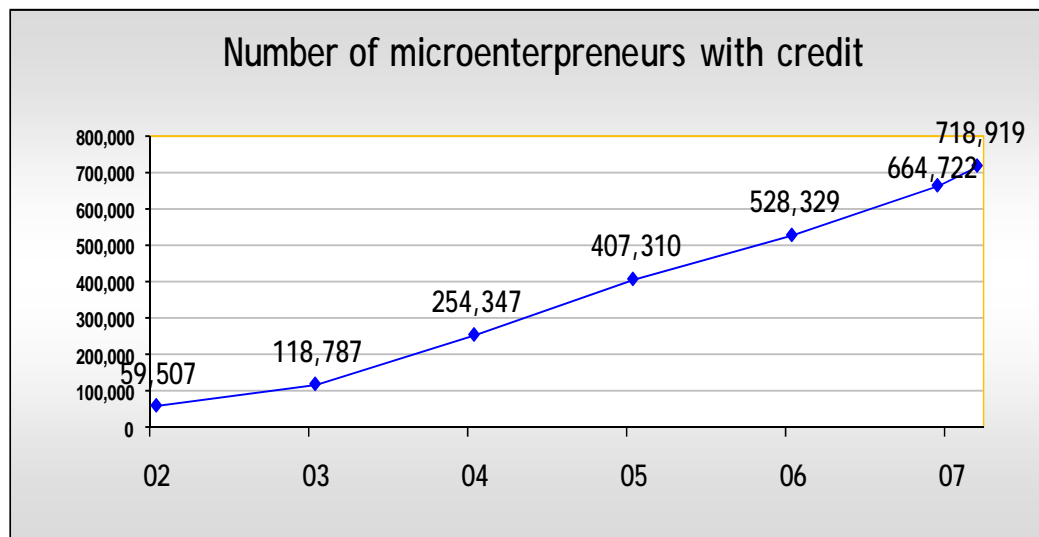
- MFI believed they had exclusivity with their customers, and that customers were loyal while.....credit card lines granted to same clients (brown bars) were higher than MFI loans (green bars)
- This was detected only because all the lenders shared with same PCB
- It is not advisable that MFI set up a separate PCB
- Big risks may be incurred while assessing new applicants without having complete picture



Project results (Jun. 05 to Oct. 06)



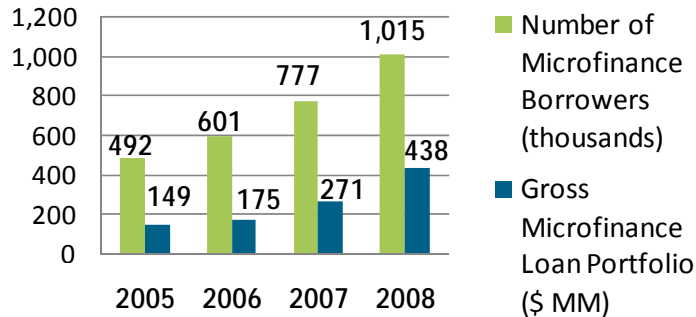
Client Number:	+ 33,65%
Total portfolio:	+ 53%
Average loan:	From \$ 1,800 to 2,400
Portfolio At Risk:	- 2%
Legal actions:	- 0.4%
MFIs joining:	37 (initial objective 20)
Users number:	from 7 to 135 (non-regulated)
Useful inquiries:	90% useful to approve credit



Need for Microfinance Credit Reporting - A Lesson for All

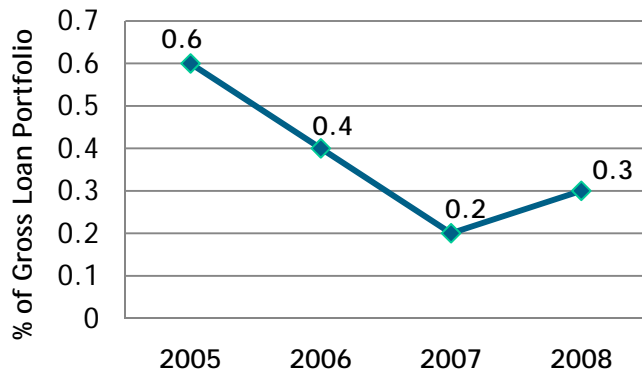
A dynamic and rapidly growing MF sector...

MF Number of Borrowers and Loan Portfolio, 2005-2008



...but with a risk of rising NPLs

Evolution of PAR>30 (based on 19 MFIs) 2005-2008



- IFC's MF exposure (end FY09): \$11.8 MM

CHALLENGES IN THE MICROFINANCE SECTOR

- One of the most rapidly developing microfinance markets globally
- However: "The rate of microfinance NPLs has increased to 2.5 percent in the first four months of 2009, compared with less than 1 percent for the same period last year" (President of the Cambodia Microfinance Institution, May 2009)
- Leverage of the ongoing Credit Bureau project will promote the participation of MFIs in credit information

Conclusion - MFIs sharing information with the wider lending community...

- Provides greater access to finance and financial services
- Improves credit granting and reduces default rates
- Promotes responsible decision making and less discriminatory lending practices

Useful links and contacts

Research Links

- <http://www.ifc.org/FinancialInfrastructure> - **IFC's Global Credit Bureau Program**
- <http://www.whcri.org/> - **Western Hemisphere Credit and Loan Reporting Initiative**
- <http://www.doingbusiness.org> - **Doing Business Getting Credit Indicator**

HQ Program Team

Peer Stein, Manager, PStein@ifc.org

Tony Lythgoe, Principal Financial Specialist
tlythgoe@ifc.org

Shalini Sankaranarayanan, Program Officer
SSankar1@ifc.org

Fredesvinda Montes, Legal & Regulatory,
fmontes@worldbank.org

Nina Bilandzic, Program Analyst
Nbilandzic@ifc.org

Asia & Pacific Team

Peter Sheerin
Credit Bureau & Risk Management Advisor
PSheerin@ifc.org

Margarete Biallas, Program Manager
Mbiallas@ifc.org

Hourn Thy, Operations Officer
Hthy@ifc.org

Colin Raymond,
Credit Bureau and Risk Management Advisor, Asia
CRaymond@ifc.org

ANNEX

IFC Global Credit Bureau Program

- Number of countries where advisory services were provided in FY 09: 53 countries.
- No. of credit bureaus created or significantly improved: 13 countries (Bosnia, Bulgaria, Romania, Costa Rica, Guatemala, Honduras, Nicaragua, Panama, South Africa, Pakistan, Egypt, Morocco, Nigeria).
- No. of credit bureau inquiries in those countries in 2008: 38.9 million.
- Volume of lending supported in these countries in 2008: \$19 billion.
- No. of countries covered under Doing Business Report for credit reporting: 181.
- Number of new laws/regulations drafted or contributed to drafting: 21.
- Number of roundtables, seminars, conferences, and other outreach events: 70 events in 47 countries.

Global Credit Bureau Program: current engagements*

Latin America & Caribbean

- Argentina
- Barbados
- Chile
- Guyana
- Jamaica
- OECS
- Trinidad & Tobago

Eastern Europe & Central Asia

- Azerbaijan
- Kyrgyzstan
- Tajikistan
- Uzbekistan
- Mongolia

Middle East & North Africa

- Afghanistan
- Algeria
- Djibouti
- Egypt
- Jordan
- Lebanon
- Morocco
- Syria
- Tunisia
- Yemen

Sub - Saharan Africa

- Cape Verde
- DRC
- Ethiopia
- Ghana
- Mauritius
- Mozambique
- Nigeria
- Rwanda
- Tanzania

Asia & Pacific

- Bangladesh
- Cambodia
- India
- Lao
- Nepal
- Pacific Islands

* The list does not capture all of the Program's country involvements to date, but reflects the Program's active engagements as of July 2009.

IFC Global Credit Bureau Program's new initiatives and way forward

Global Credit Reporting Standards



- Standards setting led by the World Bank in collaboration with the Bank for International Settlements (BIS)
 - Objective is to produce universally accepted set of standards on credit reporting
 - Initial task force launched May 2009 in Washington, DC
-

Microfinance Credit Reporting



- Projects that integrate microfinance institutions into credit information systems
 - Feasibility assessment of microfinance reporting climate planned for India in July 2009
 - Research on the impact and benefits of credit reporting for microfinance institutions
-

Financial Education



- Provide financial education support in the credit reporting space (to users, providers and regulators)
 - Financial education is a tool to improve risk management practices and instill borrower discipline
-

Public Registries Support



- Increased support to Public Registries, where the registry is an appropriate substitute
 - Help build bank supervision capacity using public registry data
 - Preliminary engagements in Afghanistan and Algeria
-

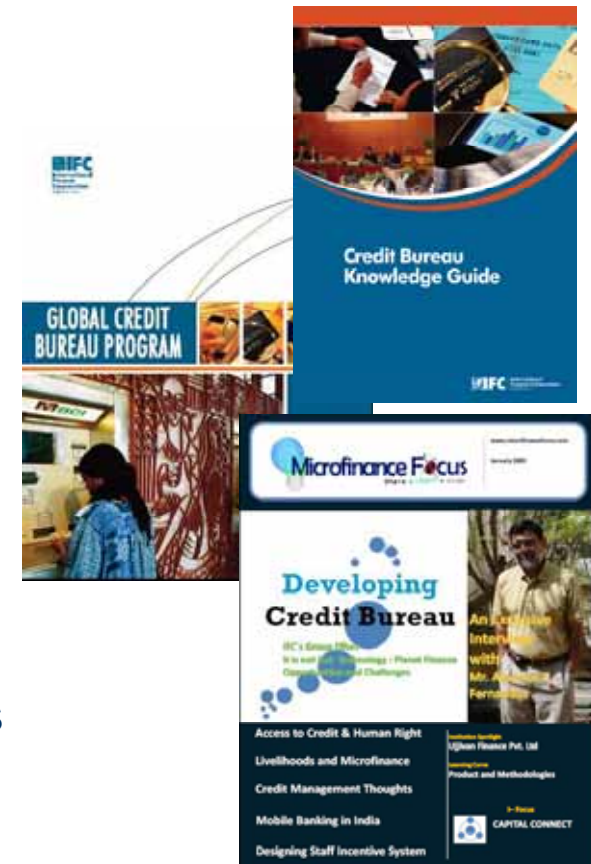
Knowledge management & dissemination

Ongoing

- Webpage: www.ifc.org/FinancialInfrastructure
- Organization of global and regional conferences
- “Credit Bureau Knowledge Guide”
 - Available in English, French, Spanish, Russian and Vietnamese

Planned

- Financial education on credit reporting for regulators, lenders and end-users
- Updates to Knowledge Guide
- Ongoing dissemination through conferences, workshops at global, regional, country level



Global Credit Bureau Program: Team

