



“Strengthening the Microfinance Sector”

PlaNNet Finance’s experience in implementing credit bureaus for Microfinance Institutions

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Introduction

One of the most important drivers for success of Microfinance Institutions is the ability to effectively manage risk, and in particular to, with great assurance, maintain a very low portfolio at risk.

In order to maintain high performance of loan portfolios, MFIs are often found in competition on various markets. In several countries (Morocco, Bolivia, Benin, Egypt,...), MFIs are well spread over the country and offer the same kind of services to the same kind of clients in the same geographic area. This has led to a single individual being able to hold accounts with multiple organizations. By itself, this is not a problem, but if the other MFIs are not aware of this situation, some payment behavior allows the individual to create a feeling of high reliability in payments while effectively raising the risk exposure of the MFI. In extreme cases, the borrower could pay off one loan with another loan until eventually the borrower is unable to pay, leading to a relatively larger default across several organizations. This situation is often referred to as “migratory default”.

1. Objectives of a Credit Bureau System (CBS) and General Considerations

A Credit Bureau System aims at gathering the data concerning the microentrepreneurs, which constitute an MFI’s portfolio, in order to evaluate their repayment capacity, and/or their background. The data thus gathered is used to build a database that the MFIs can consult provided an annual fee. The CBS will enable a control on cross-indebtedness, as customers are tempted to borrow from other MFIs to repay their initial debt.

Thanks to the CBS, MFIs can better collaborate and access broader information concerning their potential clients and the market in general.

A CBS could for example enable the MFI to:

- Rapidly detect customer insolvency,
- Benefit from the past relations of a client with another MFI (blacklist of clients),
- Prevent customers from borrowing money to repay their debt and customer over-indebtedness,
- Improve solidarity and collaboration between MFIs thanks to broader coordination in their actions and access to information,
- Encourage borrowers to repay their debt – the risk of seeing their name published in the CBS bad-debtors list will be an efficient prevention and management tool against bad debtors and bad loan management.

A CBS can collect only negative information (unpaid loans, blacklisted clients,...) or both negative and positive information (amount of the loans, information of the activity of the clients,...).

The system can support a centralized method of data collection and manipulation, while maintaining the ability to use offline methods.

Physically speaking, the CBS is a database of national coverage gathering all the data thought to be pertinent and useful by and for MFIs.

To reach its goal, a CBS database has to be fed regularly by the MFIs with the data mentioned previously. MFIs will feed the CBS by sending files, which will be integrated in the Database after control on their content.

Queries should be done either interactively, via an Internet browser, or by file transfer (batch). Batch transfer will help curb the problems due to important quantities (hundreds, maybe thousands of queries per week for some big MFIs) by enabling MFIs to group the customers for whom they want to check the status and potential active loans.

Some specific requirements should be taken into account while designing a credit bureau specifically for microfinance institutions:

- In terms of demographic and geographic coverage:
 - microfinance borrowers are generally non-banked persons : the credit bureau should not use the classical information linked to the cash movements of the clients,
 - working in the informal sector with micro enterprises with no legal existence : the information on the person (ID Card number of the borrowers) is usually more reliable than the information on their “ company” (ID fiscal number, ...). Therefore, in most microfinance credit bureaus, the pilot number is more often the client's national ID Card number rather than the Identification number of it's enterprise, often based in semi-urban or rural regions : with difficult connections (internet, phone,...)
- In terms of information needs : experience shows that they are 2 main specificities : (1) most MFIs in the world are giving loans through group lending methodology so the information in the MIS of the MFIs are usually managed on a group level and not on an individual level, the default payment being also impacted to all the group and not to the individual responsible for the default.
(2) the process of giving the loan is really short in a MFI – sometimes less than 1 week- and often very decentralized (in some cases, the credit officer is responsible for the whole process of the loan approval). To be efficient, the credit bureau has to be up to date and of easy use by the credit officer.
- Technology limitations of MFIs that leads to limited IT infrastructure for automatic and consistent reporting to the bureau.

2. The example of Morocco

2.1 Status report of the Moroccan Credit Bureau :

Microfinance is well developed in Morocco through 11 MFIs serving more than 500 000 active clients. Based on PlaNet Finance's data, more than 25% of the microfinance's clients have loans with more than 2 MFIs. Over the past 2 years, PlaNet Finance Morocco has worked with the Moroccan MFIs and with the support of the Grameen Foundation USA on a joint project to implement a national Credit Bureau System in Morocco..

PlaNet Finance proposed the development of a national CBS, based on open source solution in order to be easily replicated in other countries. Today, the system works on a test basis with more than 250 000 actives clients being registered. It has been tested and implemented in the 5 leading MFIs (reaching 80% of the market). PlaNet Finance plans to roll out fully the CBS in the next 2 months reaching then 100% of the microfinance clients of Morocco.

2.2 General specifications of the Moroccan Credit Bureau :

The first version of Credit Bureau in Morocco includes all active loans of all MFIs that have joined the project. A customer will be allowed to have several active loans, from different MFIs, at a given time.

The data to collect concerning each borrower is:

- NIC number
- Family Name
- Given Name
- Date of birth
- Blacklisted (yes/no)

For each active loan, the data to gather is:

- Loan start date
- Loan end date
- Loan amount
- Existence of bad debt on this loan (Yes/No)
- Monthly amount to be reimbursed.

2.3 List of functionalities of the Moroccan Credit Bureau :

1. Feeding the database with statements on new loans

MFIs are able to send data to the CBS at any time. In fact and in order to better plan the work, it was decided to supply the database with information every 2 weeks. ,
The database must be updated (data addition, modification, cancellation) with the data sent by the MFIs related to the new loans, since the last update.

2. Access to active loans' data

MFIs (branch and head office) are able to send queries to the CBS at any time, and check potential active loans for a given new customer.

MFI could query the database:

1. Either interactively, through the Web : customer identifier (NIC) is entered results appearing immediately on screen,
 2. Or by file exchange: a file containing several identifiers is sent, a file containing the results is sent back to the MFI. This is the way large MFIs (such as AL AMANA and ZAKOURA) are using the credit bureau since they are giving thousands of new loans every week.
3. **Security:**
The security of the system is strong at all levels. ID and password control access to the interactive query system. The origin of the files received are controlled (control on IP address, for instance).

4. **Invoicing:**

In order to have a sustainable credit bureau, it is compulsory that the users (the MFIs) will pay for its use. In Morocco, PlaNet Finance and its partner (the Grameen Foundation USA) have funded the development of the system and its implementation but the MFIs are requested to pay for the maintaining of the system.

Billing is done on the basis of the number of queries (interactive or via file transfer) an MFI did in a given period. Therefore it is essential to keep track of all transactions and operations.

Invoicing consists in periodically editing a list of queries made to the database together with a bill per MFI. The reports will state the number of queries, their type (interactive or batch) and date.