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Credit bureaus give MFIs the ability to scale

Nicole C. Dietz

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NORTHERN ILLINOIS UNIVERSITY

Credit Bureaus give MFIs the Ability to Scale

A Thesis Submitted to the

University Honors Program

In Partial Fulfillment of the

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Department Of

Management

By

Nicole Dietz

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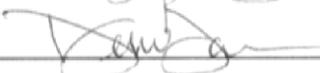
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ABSTRACT (100-200 WORDS): My paper will focus on the emergence of Credit Bureaus in Latin America (Mexico specifically) due to Microfinance. It will address the importance of Credit Bureaus and how they can help Microfinance Institutions (MFIs) become more sustainable. Microfinance is a way to lift the world out of poverty by providing financial services for low-income individuals. Microfinance institutions (MFIs) have begun to emerge all over the world in underdeveloped countries. In order for MFIs to be sustainable and have the ability to scale, they must have access to their client's credit history. The credit report allows them to make an accurate decision regarding the client's creditworthiness. They are able to charge appropriate interest rates and loan sizes based on the report. This allows the commercial banks to run successfully and make essential business decisions. The same concept applies for MFIs, yet the problem are that in many undeveloped countries in Latin America (specifically Mexico); credit bureaus are either unavailable or inaccessible to a large number of the providers. Minimal banking institutions are open to the sharing of information. The development and ownership of credit bureaus in these areas can make a significant difference in the microfinance sector. Credit bureaus can benefit the microfinance sector in many ways including diminishing risk, creating a lower transaction cost, assist in making more informed decisions, etc. Credit bureaus give MFIs the opportunity to scale and can potentially lower the poverty rate.

Credit Bureaus give MFIs the Ability to Scale

Nicole Dietz

April 30, 2015

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Thesis: My paper will focus on the emergence of Credit Bureaus in Latin America (Mexico specifically) due to Microfinance. It will address the importance of Credit Bureaus and how they can help Microfinance Institutions (MFIs) become more sustainable.

Introduction

My paper will focus on the emergence of Credit Bureaus in Latin America (Mexico specifically) due to Microfinance. It will address the importance of Credit Bureaus and how they can help Microfinance Institutions (MFIs) become more sustainable.

Microfinance has begun to become a well-known concept prior to Muhammad Yunus winning the Noble Peace Prize in 2006, for the creation of Grameen Bank, a microfinance firm. Half of the world (3.5 billion people) live below the line of poverty on less than \$2.50 a day.

Microfinance is a way to lift the world out of poverty by providing financial services for low-income individuals. Microfinance institutions (MFIs) have begun to emerge all over the world in underdeveloped countries. In order for MFIs to be sustainable and have the ability to scale, they must have access to their client's credit history. In America, commercial banks receive their client's credit history from credit bureaus. The credit report allows them to make an accurate decision regarding the client's creditworthiness. They are able to charge appropriate interest rates and loan sizes based on the report. This allows the commercial banks to run successfully and make essential business decisions. The same concept applies for MFIs, yet the problem is that in many undeveloped countries in Latin America (specifically Mexico), credit bureaus are either unavailable or inaccessible to a large number of the providers. Minimal

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Microfinance

Microfinance is a way for the poor to receive financial services. It is typical for low-income individuals to not have access to commercial banking services. Microfinance is a way to give the poor the ability to lift themselves out of poverty. Microfinance has many different elements. It gives the customer the option to take a loan, create a savings account, and provide insurance. The amount of money dealt with is frequently small because of the customers' situations.

Muhammad Yunus is the creator of microfinance. Yunus grew up in Bangladesh and proceeded on to receive further education in the United States. Upon his return to Bangladesh, he took a chair in economics at the University of Chittagong in 1972. During this time period, he was enlightened about the struggling financial situation of many of the citizens. There were numerous people who were living in extreme poverty and their only access to money was from loan sharks at huge interest rates. (Ole Danbolt Mijos, 2006) Yunus found it unfair that the people who needed the money the most were turned away from commercial banks due to lack of collateral. Yunus then lent \$27 out his own money to forty-two craftswoman living in

Bangladesh and told them that they can return the money whenever they can afford it. After the women returned the money, he decided that this could be a useful and effective concept and created the first microfinance firm called Grameen Bank. The bank has over seven million borrowers and is self-financing while still making a profit. (Ole Danbolt Mijos, 2006)

Microfinance Institutions (MFI) can run as both a non-profit and a for-profit. Originally, MFIs focused on providing micro-enterprise credit giving loans to poor woman to help them run their small business while receiving a profit that could be used to invest in their families and households. Many of the organizations have expanded their institutions to provide savings and insurance. In order for the MFIs to be sustainable, they must cover their cost. The MFIs must consider whether the cost of the money that it lends and the cost of loans default are in proportion to the amount lent and the transaction cost. (Kiva.org, 2015) One challenge that MFIs face is the balance between the double bottom line; people and profit. It can be hard to balance the need for profit while still focusing on the goal of serving the impoverished clients. If profitability becomes the main goal, which it would be if the company operates under a for-profit, the MFIs may look to serving more financially stable customers that can receive larger loans. There are different MFIs, including Bangladesh Rural Advancement Committee and ASA that have proven success by concentrating on serving the poorest of the poor. (Kiva.org, 2015)

Microfinance has been proven to be successful in many ways. According to CGAP, "Comprehensive impact studies have demonstrated that: Microfinance helps very poor households meet basic needs and protect against risks; The use of financial services by low-income households is associated with improvements in household economic welfare and

enterprise stability or growth; By supporting women's economic participation, microfinance helps to empower women, thus promoting gender-equity and improving household well-being; For almost all significant impacts, the magnitude of impact is positively related to the length of time that clients have been in the program" ([UNCDF Microfinance/ KIVA, 2015](#)). Poor people gain the ability to handle crisis and challenges when they have access to credit and insurance. The credit gives the client the ability to grow their businesses or cover other necessary expenses. Studies have shown that with the continuous access to credit from MFIs, clients have been able to move out of poverty. It gives the clients the opportunity to send their children to school and help improve their future. (KIVA, 2015)

Microfinance is a way to bring the world out of poverty. It targets underdeveloped countries that have low-income individuals where access to capital is essential. One of the main challenges MFIs face is that a lot of the targeted countries, specifically Mexico, lack credit bureaus. This is a problem because MFIs, like normal commercial banks, need to make decisions regarding whether an individual qualified for a loan, the loan amount, and the appropriate interest rate. These decisions are made by looking at the borrower's credit history, which can be attained from credit bureaus. When there are no credit bureaus, the MFI have to rely solely on the word of the customers and additional information they are able to gather. This affects the data accuracy and with inaccurate information, the MFIs can potentially make uninformed decisions that can put the client at risk of over indebtedness. In addition, an uninformed decision can have overall effect on the sustainability of the firm.

Credit Bureaus

A large number of private and public entities gather information on both businesses and individuals. Private organizations usually receive their data from normal commercial activities (sales of goods or services) while others focus on gathering information per se and plan on selling it to other parties. Public sectors retrieve information to form public records for the interest of the public. The public and private entities gather the information then provide the information to other parties because of commercial reasons, agreements, or legal obligations and refer it to data providers. (General Principles for Credit Reporting, 2011)The most common providers are commercial banks, non-bank financial institutions, credit card issuers, and retailers and utility providers. The information is then carried on by credit reporting service providers. They receive information from the data providers, or other sources, and store and standardized the data. They format the data so that it is easier and more efficient for the assessment process. Credit reporting services can have two different objectives. They can focus on improving the quality and the availability of data to provide to creditors to make informed decisions. Also, their main purpose is to assist banking supervision and improve quality and accessibility of data for their supervision. (General Principles for Credit Reporting, 2011)

Credit Bureaus serve a significant role in today's society. Credit Bureaus have four main functions, to gather credit information, store credit files, provide credit scores, and investigate disputes. When they gather the information, they seek information including name, Social Security number, and the address of the account holder and other details about the account. This allows the bank to determine the amount the borrower is eligible to borrow. (May, 2015)

Next, they store credit files. Each individual who has credit in the United States (credit card, student loans, mortgage or auto loan) has it stored on a main database that credit bureaus use to create a credit report. Once a credit report is generated the credit bureaus create a credit score for that individual. (May, 2015) This credit score is then available for lenders to check when a borrower is applying for credit. The lender uses the credit report and score to determine the risk of lending to the individual. Lower scores that the borrowers have not managed their debt as well and those they are at a higher risk of defaulting .In comparison, people with a higher score are less at risk. After looking at the risk, the lender can determine the appropriate amount of interest that should be charged. If individual notice discrepancy within their credit report, credit bureaus can then investigate the dispute and make corrections if necessary. In America there are three established credit bureaus TransUnion, Equifax, and Experian. (May, 2015)

Financial infrastructure (FI) is a main part of the financial system. According to General Principles of Credit Reporting, “The quality of an FI is important because it determines the efficiency of intermediation, the ability for lenders to evaluate risk and of consumers to obtain credit, insurance and other financial products at competitive terms”(2). A challenge that is faced between the creditors and debtors is the asymmetric information. The creditors are less informed about the borrower’s financial situation and therefore are limited on making correct decisions. People are beginning recognizing the importance and value that credit reporting systems bring for portfolio management and sustainability. Reporting improvement makes it possible to access a larger number of borrowers. (General Principles for Credit Reporting, 2011) With more accurate information, the borrowers also benefit from a lower cost of capital. The

information quality is key to effective credit reporting. Data is considered accurate if it is error free, truthful, and up to date. If data is not accurate then it can result in higher costs or inexcusable loan details. (General Principles for Credit Reporting, 2011)

Credit bureaus can report data in two different ways. They can report solely negative-data or solely comprehensive (positive) data. Positive bureaus allow the lenders and banks that request the information from the bureaus to receive all essential information on the borrower. It may include account balances, number of inquiries, debt ratios, credit limits, on-time payments, account type, loan type, lending institutions, public record data, and details about borrows liabilities and assets, etc. (Bruin,2010)Negative bureaus only allow banks and lenders to observe the negative data including where the borrowers have defaulted. Negative bureaus are considered event based and only recorded when there is an adverse event. It is essential for the banks to make educated decisions on whether to lend to borrowers and credit bureaus give them the ability to evaluate indebtedness. With a positive reporting system, borrowers have the ability to receive credit with an appropriate interest rate. (General Principles for Credit Reporting, 2011)(Bruin, 2010)

Microfinance in Relation Credit Bureaus

Microfinance sectors can benefit from established Creditor Bureaus. Many countries with micro lending have been restricted on their ability to become sustainable because they are unable to access credit history. Credit Bureaus are essential to the growth of microfinance

industries and can be the link between informal and formal financial sectors. Credit Bureaus can benefit Microfinance in eight ways (Hattel& Montgomery, 2010):

1. Improve portfolio management and diminish credit risk
2. Reduction in transaction costs
3. Increase potential scale and depth of outreach
4. Increase access to finance
5. Improve culture of repayment
6. Reduce risk of client over indebtedness
7. Enhanced coordination and sharing of loan portfolio information among banks, MFIs, and Retailers
8. Increase compliance with Basel I and II “know your client” policies

First, if lenders are provided with more complete information regarding the borrower’s history, then they will be able to make more accurate decisions regarding loans, which in return bring about a lower default rate. Second, it can allow new loans to be processed correctly and improve the long-term growth for both the providers and clients. Next, MFIs will have the ability to reach riskier sectors, such as rural areas, if they have more accurate client data. If portfolio management is able to improve, there will be higher access to capital and clients will be able to have more available credit. (Hattel& Montgomery, 2010) Clients will have greater incentive to pay back their loans if they know they are being recorded and tracked. In addition, clients often take on numerous loans at a time and with access to this information, the MFIs

can prevent further indebtedness. Sharing of the information received by the bureaus can create a greater connection for each of the sectors and make it possible to reach more clients. It will also make it easier to know your clients and serve their needs to the best of their ability. (Hattel& Montgomery, 2010):

There are three primary different models that credit bureaus serving MFIs can take, Creditor-Owned and –Operate model, Independent Operator Model, and Non-commercial Lender Association. The Creditor-Owned and- Operated model has the lenders establish the credit bureaus and they are the primary stakeholders. Other shareholders can include technical partners, government entities, international financial institutions, and independent private investors. This model allows the bureau to get started quickly and ensures the bureaus' sustainability because the member's commitment to provide quality and timely data. The problem that arises with this model is that there is possible conflict of interest between the shareholder's interest and the bureaus diverge. (Hattel& Montgomery, 2010)The Independent Operator Model differs from the other models because a third party owns and operates the bureaus. Lenders play no role in the ownership of the company. This model is a commercial company so there are no incentives to provide quality customer service. There is no conflict of interest because the ownership and lenders are separate. Due to that they can experience difficulties attracting lenders. The for-profit credit bureau, which is the least common, is a non-commercial credit bureau ran as a non-profit organization. They encourage them to recognize a common interest to share information .These bureaus are not as dynamic and have problems reaching high-quality services. They generally are not as successful. (Hattel& Montgomery, 2010)

In order to develop a credit bureau in a developing market, it requires broad background research and planning for all the key members in the market. There is high resistance regarding information sharing. Associates that work in the microfinance field have a lot of experience in educating and widening stakeholders' views about their business concepts. They have the opportunity to promote credit bureaus and explain their values and importance to key stakeholders. They can stress that credit bureaus are a key aspect in making the business stable with the ability to expand. A challenge that credit bureaus face is the legal and regulatory framework. The legal framework usually includes data protection, credit reporting, secrecy provision, credit reporting, and consumer protection. Microfinance associates have the ability to work together with lawmakers to help make credit information sharing favorable to all parties. Before establishing a credit bureau, it is important that a feasibility study is conducted answering key questions such as; what is the potential demand for credit information and legal requirements? (Hattel & Montgomery, 2010) Microfinance associates can help with this progress and answer some of the essential questions. In addition, the associates can help assist with the business planning. They can use their expertise to help make appropriate pricing strategies, investment decisions, economics of scales, and etc. Next, Microfinance associations can help potential/ existing credit bureaus with technical scoping and service provider selection because of their deep understanding of their members. The associates can provide the bureaus with information regarding the strengths and weaknesses, which can create a guideline for the technical specifications. It is also essential for credit bureaus to test pilot, train, and promote their business in order to work together successfully with a microfinance firm. (Hattel & Montgomery, 2010)

Latin America

The emergence of MFIs has created the need for change the need for change in the financial sector. Since 2000, private credit bureaus in multiple countries have served both the regulated and non-regulated sectors. The MFIs have been involved and many have established their own credit bureaus. Credit Bureaus that specialize in Microfinance have mastered the industry data including payment frequency, quota amount, maximum days in arrears, exact days in arrears, and group debt. Credit Bureaus working with Microfinance firms in Latin American countries all face numerous challenges including (Saavedra, 2012):

1. Lack of available data
2. Lack of reporting institutions and dissemination of data in the credit bureaus
3. Lack of data accuracy
4. Regulatory framework that discriminates against MFIs
5. Excessive legal protection of the debtor
6. Insufficient data
7. Short data retention
8. Relatively high prices
9. Fears of conflict of interest caused by MFI share ownership in credit bureaus
10. Insufficient dissemination or failure to comply with the existing data and consumer protection regulations

Mexico Overview

Most countries in Latin America experience these issues, but depending on the specific country elements can vary. For example, the credit reporting system in Mexico has the largest number of regulated institutions, but still has a long path before working successfully. They have many issues regarding the low-income segment population reporting the bureaus which causes lack of available data. Low-income borrowers have the ability to borrow from multiple MFIs. The regulated MFIs then incur the risk of not having knowledge of their credit history. Also, in Mexico they have a large opportunity to improve data accuracy and sufficiency because of the sectors immaturity with weak IT systems. In addition, Mexico does not have reliable nation identification documents and exact home addresses which creates issues when MFIs report their information to the bureaus. This causes an absence of a public credit registry and means there is no database for a regulated financial sector. (Saavedra, 2012)

It is estimated that, by the supervisory body, by the end of 2012, 75% of the total assets and number of borrowers will be regulated. There are four specialized banks, 43 SOFIP, 69 credit companies, and 123 credit unions. (Saavedra, 2012) There is also a variety in credit providers in the non-regulated sector including more than 3,000 SOFOM and over 6,000 pawn shops. This concludes that the majority of the institutions are unregulated. Few years prior, the regulations started to create SOFMOS that were aimed at using their own capital to grant loans to avoid putting their investor's money at risk. This caused an enormous growth and the low equity and striking profitability got private initiatives attention. It was common that the managerial and executive teams had limited knowledge about the microfinance sectors. SOFMOS offered loans

for microenterprise. The high level of competition brought about Group Elektra, which originated from Micronegocios Azteca. Group Elektra, one of the largest regulated consumer credit providers, started offering group loan options (which is an important aspect in microfinance). (Saavedra, 2012):

Mexico does not currently have a public registry, but there are three established regulated credit bureaus:

1. Credit Circle
2. TransUnion of Mexico
3. Dun and Bradstreet

The other two operate under the name "Credit Bureau". "Credit Circle's" main objective was to cover the data gaps that currently exist in the microfinance sector by credit bureaus. The data obtained from MFIs are an important feature in their business. Both of the bureaus have financial institutions as their shareholders. Group Elektra and Coppel were the shareholders for "Credit Circle", while Transunion, LLC and some banks were the shareholders for "Credit Bureau". In comparison, regulated non-banking sectors have an extra supervisory body. The body is in charge of delegating with federations and confederations, and make regulations that are more flexible than typical banking regulation. (Saavedra, 2012) They are required to consult with at least one credit bureau. There are a lot of non-regulated sectors that did not report, which added a large risk factor. Unregulated SOFMOS not only have a risk for themselves but also put a risk on the regulated system. To lower this risk, the supervisory body is putting

efforts to become familiar with their operations and required unregulated sectors to report their business operations through money laundering prevention norm. Also, there is now a legal requirement that forces all saving banks to regulate themselves. (Saavedra, 2012)

Mexico's Microfinance Sector

Guidelines on Accuracy Data

Regular banking institutions have accurate data that is considered reliable. In Mexico, MFIs (specifically non-regulated) do not have data accuracy; this is because of many reasons. In Mexico, there are many small credit providers. It is common that small credit providers have weak IT and organizational systems, which directly affects data accuracy. In addition, there are many homes without addresses and lack a reliable national identification number. These are both critical elements in verifying the borrower's basic information when applying for a loan. All MFIs institutions send their data information to one or both of the credit bureaus because there is no public registry. Although efforts have been made to create an accurate validation process, there are still inconsistencies due to this. The data inconsistency usually includes accuracy of balances, court dates, or the presentation of data. (Saavedra, 2012)

Unregulated MFIs experience inaccuracy in data reporting due to their weak IT systems. The systems do not always identify discrepancies and neither does the credit bureaus system. Credit bureaus provide MFIs, who have weak IT systems, with data forms, yet there are often times that they are not filled out correctly and the information cannot be accepted. Training MFIs how to fill out the forms correctly can increase the overall data accuracy. Another relevant

factor is that there are small MFIs that operate in the rural area and they have trouble reporting the payments within the same day, which causes an overall delay. (Saavedra, 2012):

The credit bureaus have good timeliness on their data. They update the data as the loans are paid which can vary (weekly, bi-weekly, or monthly). The issue is that MFIs do not keep up to this standard. Credit bureaus try to add incentives for the MFIs to report on time. The bureaus offer discounts if the data is submitted timely and if the data is accurate. In addition, there are regulations in place to discontinue the institution if it's not. Adding additional incentives or enforcing regulations can help this issue. (Saavedra, 2012)

Financial Institutions do not give up data by choice. The law does not require them to include the name of the financial institution in the credit reports. In Mexico, they report positive data instead of negative data. Although they are not required to include the name of the institution, the type of institution is included. This means that if there is a discrepancy in the data reported, the bureaus do not have access to contact the credit provider to fix the issue because they do not know which one issued the loan. Overall, this is what causes the gap in credit analysis. If the law required them to include the name, it can help the process run more smoothly. (Saavedra, 2012)

Guidelines on collection of data on a systematic basis from all relevant and available sources

The fact that there is no public registry in Mexico causes significant problems in the data accuracy. Although non-regulated registries only account for a small percentage of the financial

system, they have a large affect because those not reporting their data to the credit bureaus cause an overall affect. This is because the regulated and non-regulated Credit Bureaus share a common customer base. (Saavedra, 2012) There have been efforts to fill this gap and help improve the defiance. The ruling classes have tried to force the two bureaus to share the data, but legal requirements have restricted this. The standard that they were able to put into place is sharing overdue balances greater than 30, 60, or 90 days based on the establishment. Non-regulated MFIs do not feel it is necessary to report due to various reasons including low data qualities don't meet the standards, expenses, fear of unfair competition, and because they do not see the importance. SOMFOS are still considered new in the market space and the management team needs more training on the positive effects and benefits data sharing will bring into their industry. (Saavedra, 2012)

Data Processing

Data security is a major concern for MFIs. Regulated MFIs have strong security, but non-regulated sectors are not as secure. Credit Bureaus have strong security measures and standards, which can help eliminate data inconsistencies within the unregulated sector. In addition, credit bureaus in Mexico are considered very reliable and efficient. The credit reports are obtained for the credit bureaus website. (Saavedra, 2012)

Governance and Risk Management

Credit Bureaus provide security for the data because they are responsible for both internal and external controls. Also, they provide good transparency, which is necessary for the growth of the bureaus. "Credit Circle" has a high level of transparency because they display their shareholders' composition on their website. This is a benefit in Mexico specifically because it reduces the fear of conflicts of interest between the shareholders and the financial institutions (especially MFIs). In addition, the rules and regulations reduce the possibility of additional risk and all the users and members have equal rights to access the data. Transparency can help reduce these fears (Saavedra, 2012):

Legal and Regulatory Environment

The credit bureaus also have legal obligations. They provide guidelines on clarity and predictability, non-discrimination, proportionality, consumer rights and data protection, and dispute resolution. All of the guidelines listed add benefits to the Microfinance sector. The credit bureaus and MFIs have the same legal obligation. There are many regulations protecting data and consumer rights, but the consumer rights are not well known. There is also a lack of logistical support for the borrowers. (Saavedra, 2012):

The main impact credit bureaus can bring to MFIs is their ability to lower the credit risk to institutions. They have the power to lower the transaction cost of lending. It reduces the amount of time the institutions spend on the loan application process. It also increases the competition among the financial Institution. With access to client's credit history, they can compete to have the clients with the best history. This also provides an incentive for the clients

to pay their loans on time because they know they can lose access to credit if they have a bad credit history. According to Access for All, “A recent study of 123 countries worldwide suggest that countries with credit bureaus have nearly 9 percentage points greater financial development compared with countries without them (measured as the ratio of credit to the private sector of GDP)” (Access for All, 68). Although the benefits of sharing the information are substantial, many firms are hesitant to share the information they have about their clients with other institutions. As addressed earlier in the paper, credit bureaus can take two different types of structure and ownership, which directly impacts their effectiveness. If the credit bureau is operated by a private sector, most commonly owned by the financial institutions and lenders and registries managed by supervisors of the bank or government entities, they have the advantage of being able to reach a wider assortment of institutions and additional lenders. However, this means that they only have access to data information by a limited group of institutions. In comparison, majority of the time government-run registries receive information only from regulated financial institutions. Government-run registries can force banks to include data that other private bureaus don’t have access too. (Helm, 2006)

Conclusion& Recommendation

Microfinance has proven over time to be sustainable, profitable, and have the ability to reach economies of scale. It is a powerful tool for financial inclusion. As the market sector continues to grow, there is a greater need for a larger data base that provides reliable credit information

to each other. Credit bureaus provide this information which helps institutions evaluate risk. It can prevent the possibility of over indebtedness, which has a direct effect on both the clients and the institution. In Latin America, credit bureaus provide the opportunity to scale, but requires identifying opportunities for improvement within the country itself. Adding additional legal requirements in Mexico would improve sustainability of MFIs. If reliable records of citizen identification and addresses were recorded, it would improve the accuracy of data provided by the firms. Also, making the use of credit bureaus mandatory for credit providers would help verify the accuracy of the data collected. There needs to be laws and regulations that provide incentives for the firms to report and share the data. (Saavedra, 2012) Transparency could vastly improve if it was mandatory for shareholders composition to be publicized. This in return would diminish the view of conflicts of interest, because it would lower the level of distrust and even the playing field so there is less fear of unfair competition caused by MFI ownership of the credit bureaus.

Another recommendation is to create more enforced government policies. One of the many reasons that public entities fail to report data to credit bureaus is because of the high cost. Making the cost more reasonable is a good incentive for the MFIs to report to the bureaus. Making additional incentive to the non-financial sector to report their data to the credit bureaus would help make credit evaluation more accurate. Educating consumers about their rights and strengthening the supervised compliance with consumer protection norms raises the level of trust within the system. (Saavedra, 2012). In the article, *Promoting Credit Bureaus: The Role of Microfinance* they performed many case studies in Latin America and one of the biggest challenges they faced was addressing the concerns of members. Many did not recognize the

benefits of information sharing and feared unethical use of information with competitors. (Hattel&Montgomery, 2010) Educating the members through training and seminars is a solution for this.

Providing technology and training on data collection will make a significant impact. A high level of technology is essential for both the set-up and ongoing management of a credit bureau. (Hattel&Montgomery, 2010) Giving the financial systems technological resources would be beneficial to the development of the MFIs because they would have the ability to update the data daily. It is important to informing the MFIs about the importance of data reporting in a timely matter. (Saavedra, 2012)

Public Credit Registries, Credit Bureaus, and the Microfinance Sector in Latin America states, `` To improve data accuracy, it is recommended that MFI networks motivate unregulated affiliates to follow the prudential regulations of the financial system for quality control and general risk management.” (Saavedra, 2012) The data that would be useful to include the following data in credit bureaus to improve credit risk:

1. Name of the financial institution.
2. Individual balance of the group loan
3. Data from utility companies, such as water and electricity.
4. Chamber of Commerce data.
5. More data from credit providers from the non-financial sector
6. Data from public institutions: such as tax debts and criminal proceedings (Saavedra, 2012)

Credit bureaus have the ability to help improve and scale the microfinance sector in underdeveloped countries if ran successfully. It is not enough to only create a bureau, there needs to be unity and changes made to help Credit bureaus function correctly. Although many countries face numerous challenges, there is an opportunity for improvement by creating a suitable environment for the operation. By taking the steps discussed in this report to strengthen the credit bureaus and public credit registries, there is a great opportunity to improve the transparency in the microfinance sector and give the institutions the ability to expand and help a larger number of individuals.

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