



Financial System Strategy 2020



FSS 2020 International Conference

“Infrastructural Support for SME Growth”
Nataliya Mylenko, IFC

In Emerging & Transition Markets:

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):

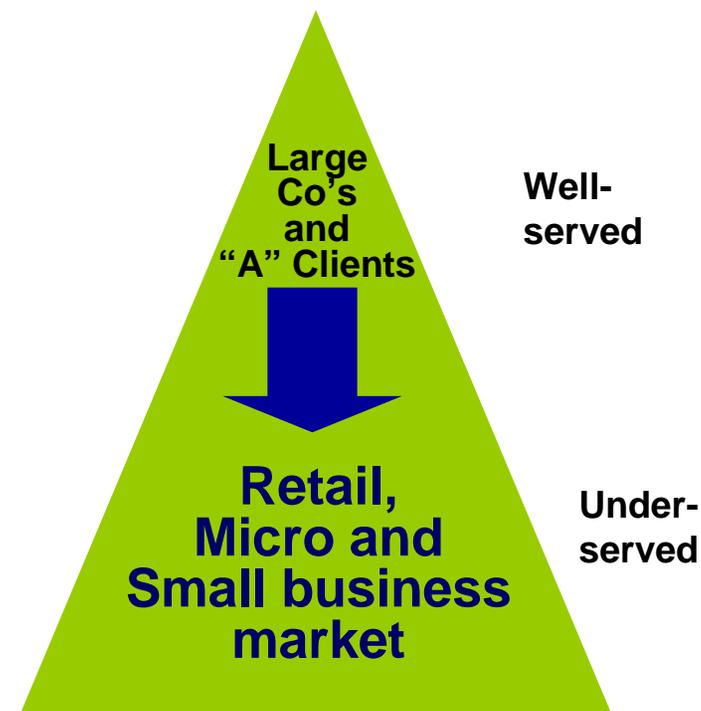
Total reach: 70 million clients globally

Banks (down-scaling):

Requires retail skills and systems

Non-bank financial institutions (diversifying):

Leasing, factoring, housing, insurance





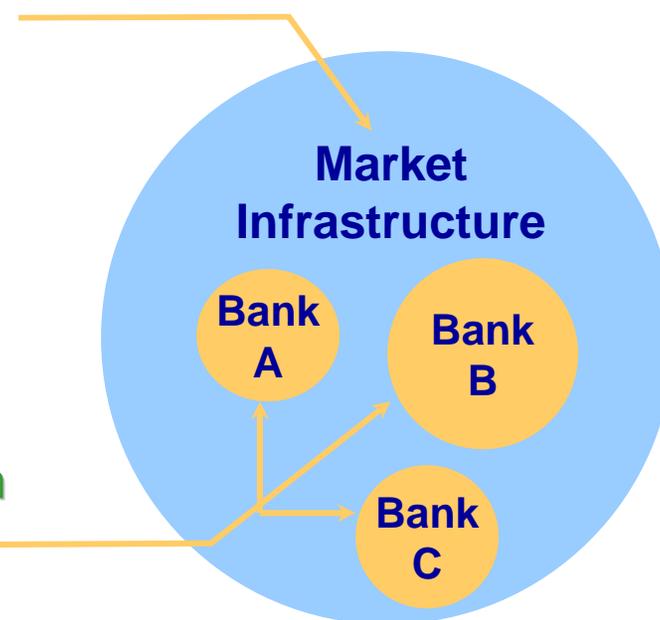
Financial Infrastructure: Key To The Success Of Financial Institutions

Basic information services & market infrastructure accessible to lenders

- Credit bureaus
- Payment systems
- Enforcing creditor rights

Retail skills and strategy of the financial institution:

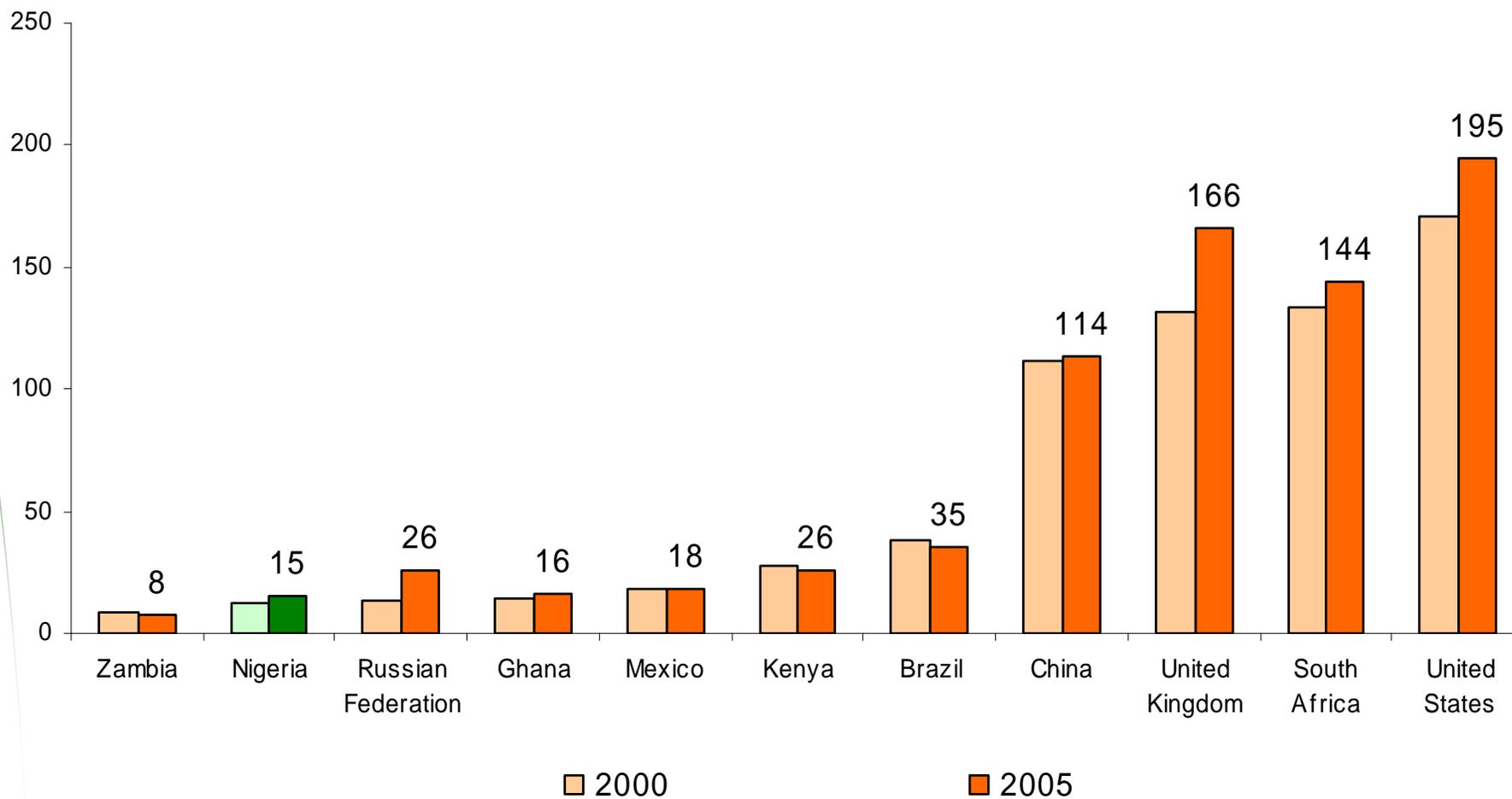
- Leadership, experience, and organization
- Products, Delivery Channels, Systems
- Improved risk management (underwriting, portfolio management, collections – using tools like credit scoring)





Depth of Credit Markets

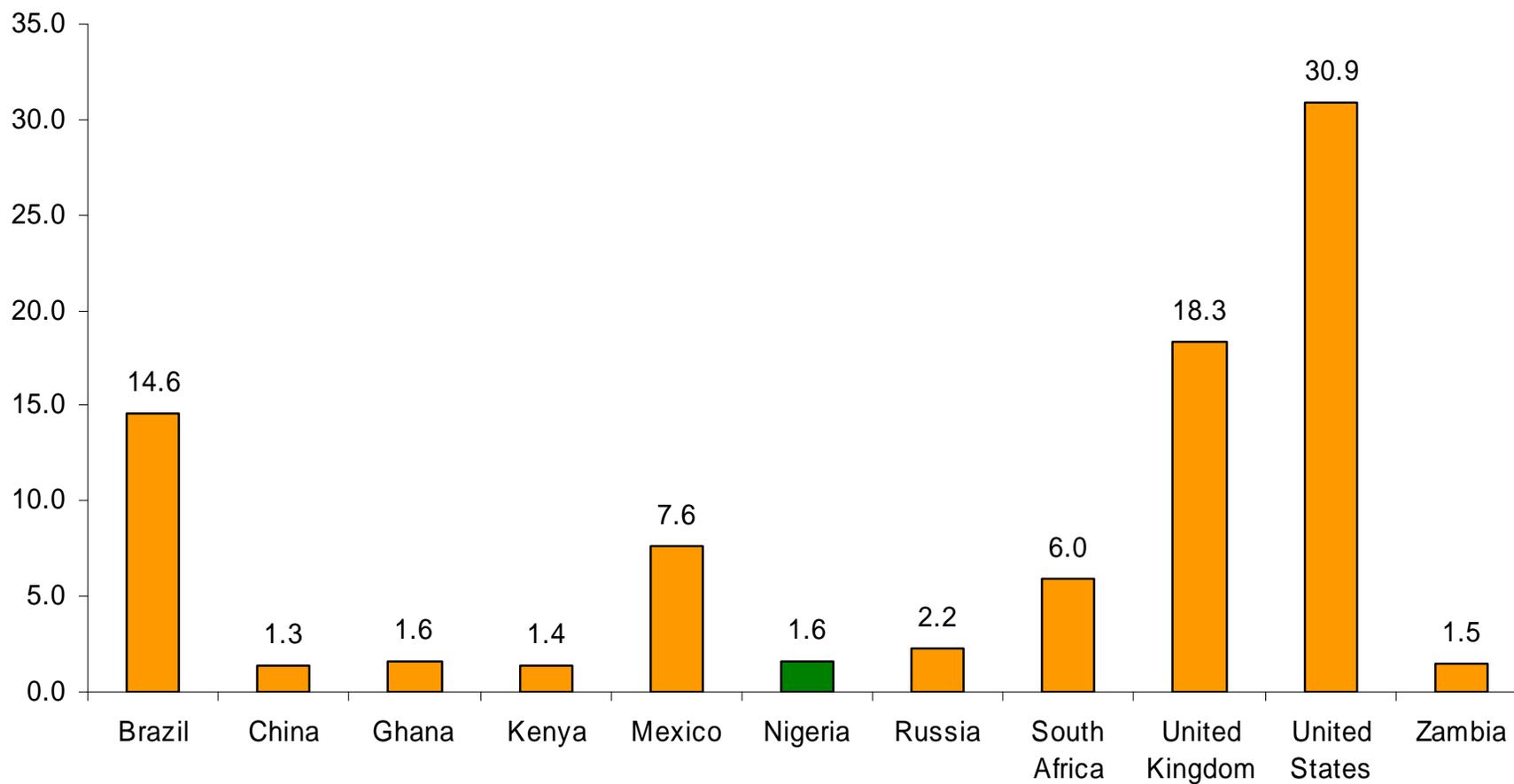
Domestic Credit To Private Sector (% of GDP)





Outreach of Financial Institutions

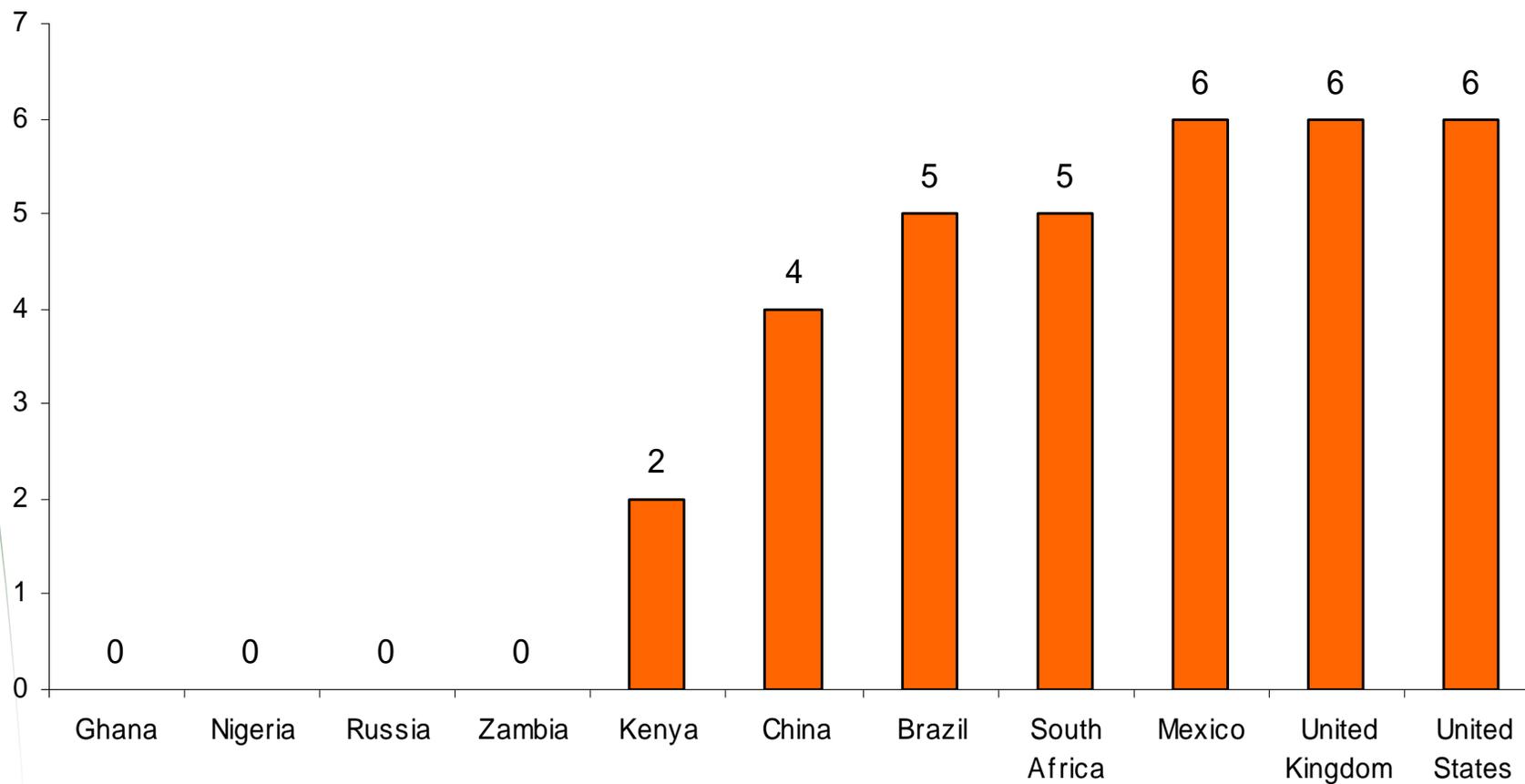
Number of branches per 100,000 people





Availability of Credit Information

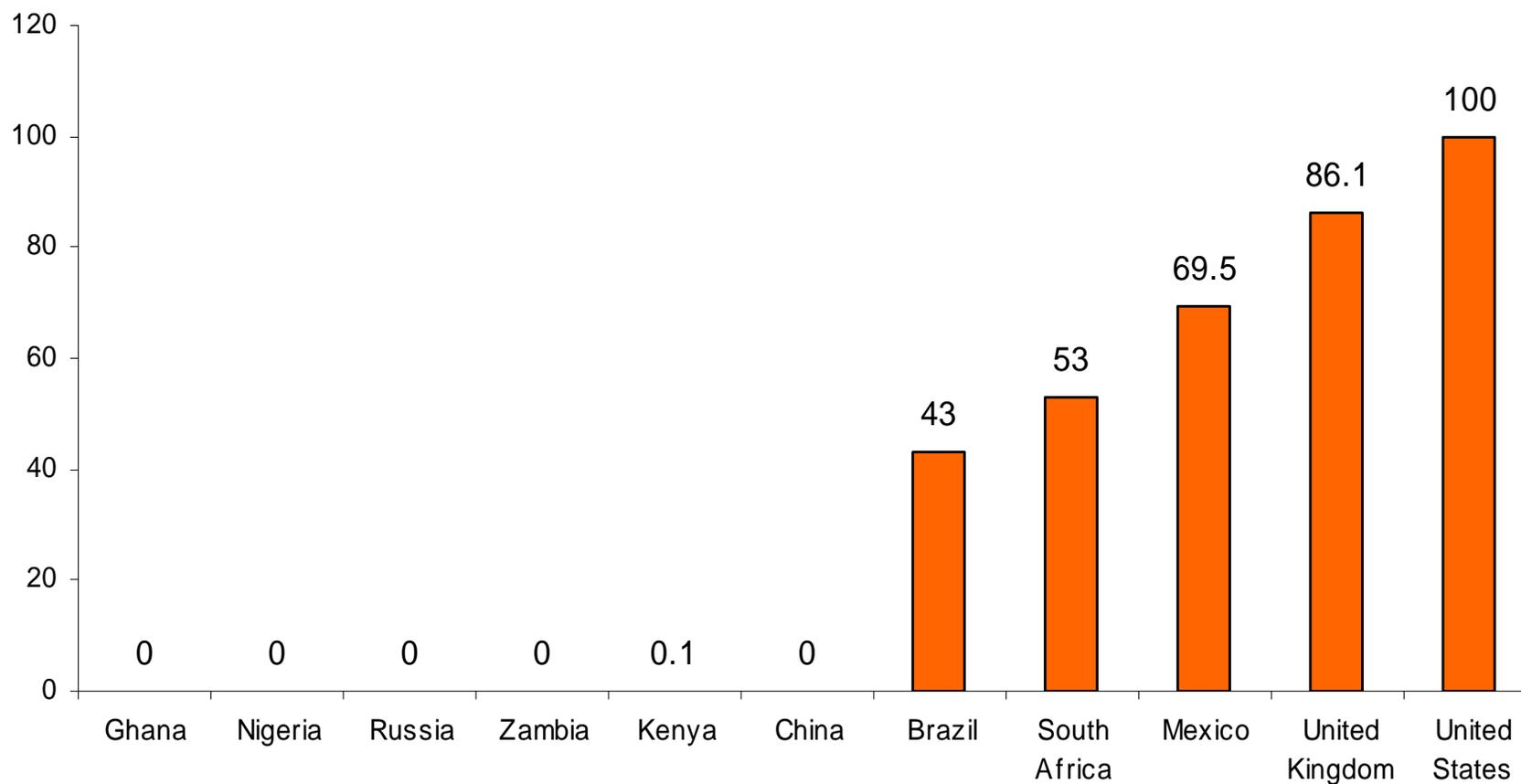
Credit Information Index





Availability of Credit Information

Private bureau coverage (% adults)





Information Important for Evaluating SME Creditworthiness

Challenge: SMEs often do not have financial statements, official records

Solution: past payment behavior is a reliable predictor of future behavior. Information on fulfillment of credit obligations with creditors is an essential factor in determining credit worthiness

Sources of information for SMEs:

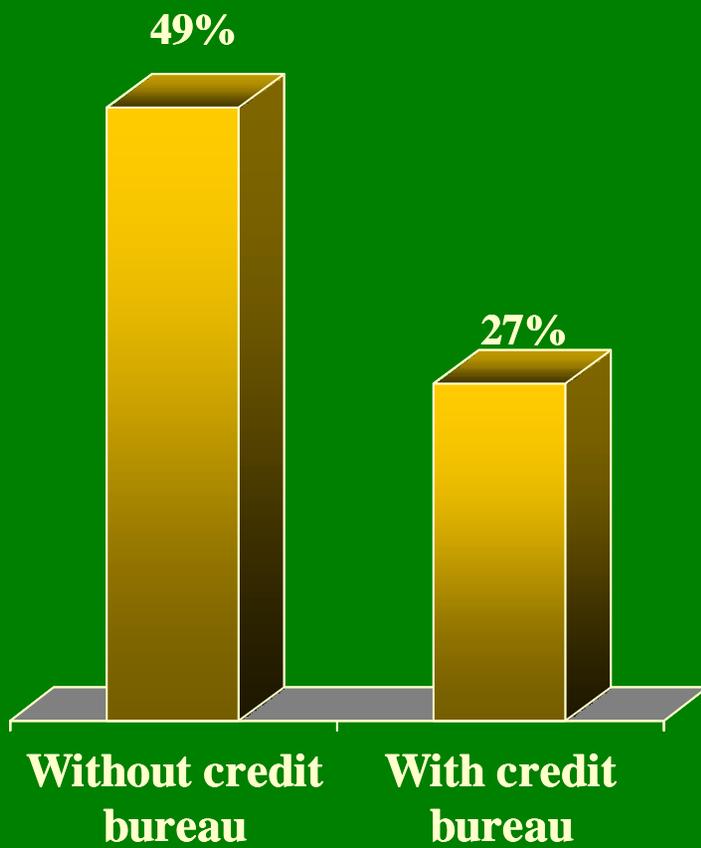
- 1) Banks
- 2) Suppliers
- 3) Utility companies
- 4) Public databases



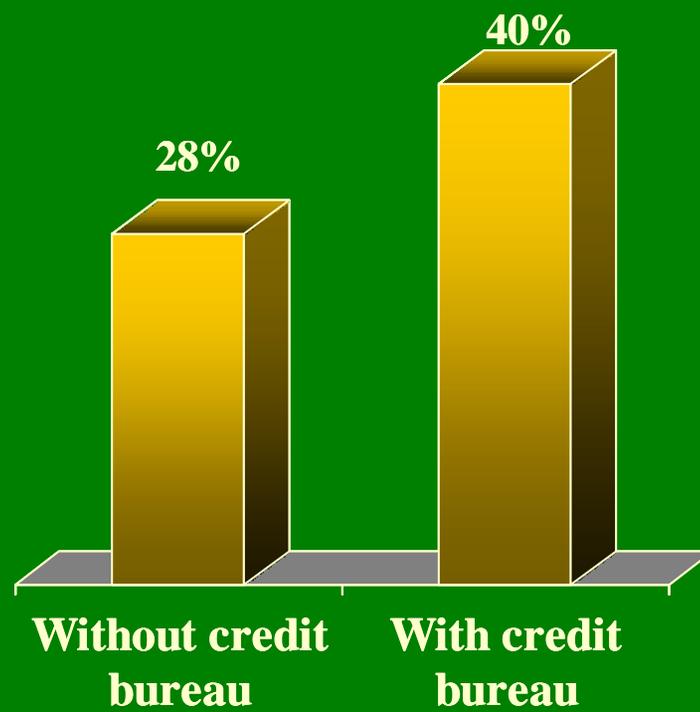
Information Sharing is Associated with Lower Financing Constraints

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





The importance of non-bank data

- **Including information on utility payments allows to improve significantly predictiveness of scoring models, especially for low income individuals (based on a study of US data) and to expand access to credit maintaining the same risk in portfolio**

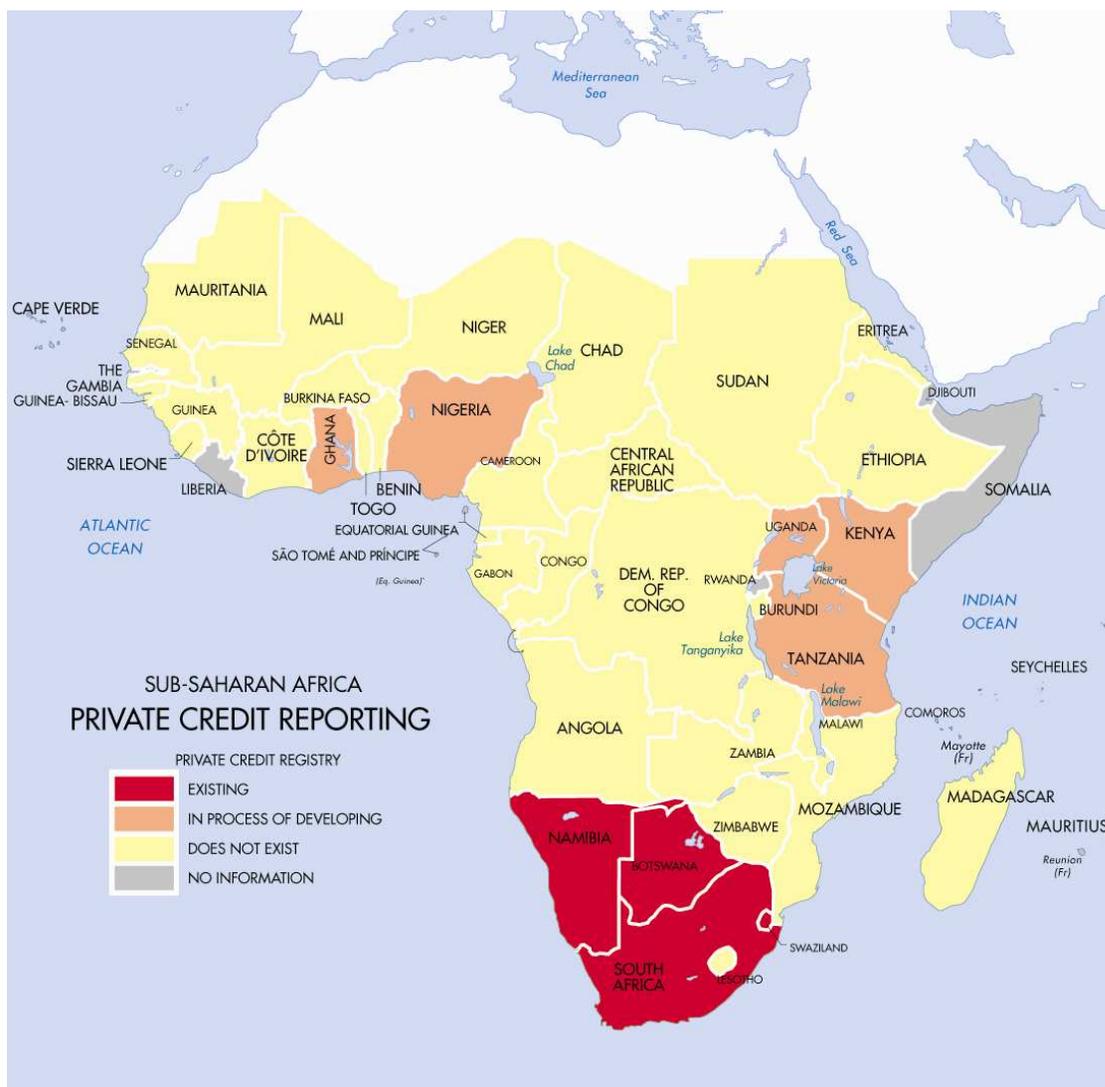
	Consumers with Utility Trades	
Delinquency Rate %	Including Utilities (#1)	Excluding Utilities (#2)
2	52.4	47.2
3	60.4	54.9
4	65.4	59.6
5	69.1	63.1
6	72.0	65.7



Challenges in the Development of Financial Infrastructure

- **Data quality in creditor databases**
- **Connectivity and availability of necessary telecom and infrastructure**
- **Lack of necessary legislation, including for data subject rights protection, electronic signature, etc**
- **Lack of electronically available public records, such as court judgments, collateral, property and corporate registries**
- **Commercial viability in countries with initially small inquiry volumes**
- **Trust**

Private Credit Bureau development in Sub-Saharan Africa





Africa: Credit Registry Development Update

Angola	Central Bank of Angola have initiated a project to develop a credit registry to enhance bank ability to assess credit risks
Ghana	A law was passed and approved by the President in June of 2007 enabling private bureaus to operate in Ghana. Participation for financial institutions is mandatory.
Kenya	Law passed requiring financial institutions to provide negative data to a licensed credit bureau on a mandatory basis. Regulations are being drafted, expected to be issued in 2007. At least three private bureaus have expressed interest in entering Kenya market
Mozambique	Central Bank of Mozambique operates a registry and have initiated a project to develop framework for operation of private bureaus in the country
Tanzania	Law passed providing a legal basis for a DataBank in a Central Bank and operation of licensed private bureaus. Regulations are being drafted
South Africa	Has one of the oldest private credit bureaus in the world. Presently 3 private bureaus operate. Information is collected on voluntary basis. The new national Credit Act regulates credit bureaus and provides consumer protection
Uganda	Legislation passed. Credit bureau provider is selected and contract is being negotiated. Mandatory Participation for financial institutions



Credit Reporting Development in Nigeria

Three companies are active in credit reporting market

- **XDS**
- **Credit registry (CR)**
- **Credit Reference Company of Nigeria (CRC)**



Challenges and Next Steps

- **Legal framework**
- **Participation of lenders in the registries**
- **Data quality and accuracy**
- **Technical capabilities of creditors and infrastructure**
- **Non-bank credit data: incentives for non-banks to join?
Value of information for non-bank creditors**
- **Public source data: access and availability**