



Credit Information Sharing in Ghana

A Case for Industry Coordination
to Promote Responsible Finance



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About SEEP

The SEEP Network (SEEP, www.seepnetwork.org) is a global learning network. We explore strategies that create new and better opportunities for vulnerable populations, especially women and the rural poor, to participate in markets and improve the quality of their lives. Founded in 1985, The SEEP Network was a pioneer in the microcredit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades our members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the world's poor. SEEP members work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and, above all, for scaling impact.

Microfinance associations play a key role in supporting the sustainable growth of the microfinance industry. The SEEP Network serves these associations by connecting them to a global learning community and by promoting capacity building efforts. As microfinance scales and commercializes in Africa, there exists an opportunity to foster greater consumer protection and transparency within the industry. The SEEP Network has entered into a four-year partnership with The MasterCard Foundation to improve management capacity of microfinance associations, advance financial transparency, and promote consumer protection. The eight partner associations in this **Responsible Finance through Local Leadership** program boast a cumulative membership of nearly 500 microfinance institutions and serve a total of 6 million clients. The knowledge and experience that results from the program will be shared with other associations to scale and sustain industry growth across Sub-Saharan Africa and beyond.

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Abstract

Under the Responsible Finance through Local Leadership (RFL) program, lack of credit information sharing was identified as one of the key constraints to a more responsible microfinance sector in Ghana. In an effort to better understand this issue, the Ghana Microfinance Institutions Network (GHAMFIN), with support from the SEEP Network, examined existing practices in use by its members and the constraints and opportunities for enhanced reporting to existing credit bureaus, and launched a multi-stakeholder dialogue around greater credit information sharing in Ghana. The result has been collective action involving regulators, financial service providers, technical service providers, and credit bureaus to integrate the microfinance sector into the credit information market system in Ghana. This includes efforts to enhance existing software, agree upon standardized reporting templates, and establish a centralized common data reporting platform for data providers.

ACRONYMS

ARB	Association of Rural Banks
ASSFIN	Association of Financial Non-Governmental Organizations
BoG	Bank of Ghana
CB	Credit Bureau
CIS	Credit Information Sharing
CRA	Credit Reporting Act
FNGOs	Financial Non-Governmental Organizations
FSP	Financial Service Provider
GAMC	Ghana Association of Microfinance Companies
GCCUA	Ghana Co-operative Credit Unions Association
GCSCA	Ghana Cooperative Susu Collectors Association
GHAMFIN	Ghana Microfinance Institutions Network
GHASALC	Ghana Association of Savings and Loans Companies
ICRO	Investigation and Consumer Reporting Office
MFI	Microfinance Institution
MLAG	Money Lenders Association Ghana
NBFI	Non-Bank Financial Institution
RAFIP	Rural and Agricultural Finance Programme
RCB	Rural and Community Bank
RFL	Responsible Finance through Local Leadership
TSP	Technical Service Provider

Credit Information Sharing in Ghana

Information on historical loan balances, individual salaries, and payment histories greatly facilitates credit application and granting processes. It can also help to reduce over-indebtedness and credit risk, as well as serve to identify and prevent fraud. Credit reporting thus plays a pivotal role in ensuring responsible finance, as it identifies the financial exposure of any single borrower from a range of credit providers.

Over-indebtedness and multiple client borrowings have been identified as key concerns that need to be addressed in the microfinance sector in Ghana. While client credit reporting is regulated through the Credit Reporting Act (CRA),¹ information sharing with credit bureaus by data providers serving the low-income market is mixed, the quality of data provided is questionable, and recourse mechanisms are limited due to capacity constraints at the provider and regulator levels.



What Are Credit Bureaus?

Credit bureaus (CBs) are private-sector companies that collect data from a range of banks and non-banks, check data for accuracy, and then aggregate all the data in a meaningful way to produce a credit report. This credit report displays the debt exposure of a consumer and indicates whether the client is up to date in payments or in arrears. Thus, the purpose of credit information data is to do the following:

- To allow credit providers to make informed lending decisions and to capture relevant aspects of clients' borrowing behavior.
- To help borrowers protect their reputation collateral.

For a credit information system to be effective, the following elements must exist in any environment:²

- A reliable national identification (ID) system for individuals.
- An adequate policy/regulatory structure.
- A framework that allows information exchange from a range of suppliers.
- A system to protect clients' privacy and channels to dispute information.

¹ Act 726, 2007.

² Adapted from Anita Campion and Liza Valenzuela, "Credit Bureaus: A Necessity for Microfinance?" Microenterprise Best Practices, USAID, October 2001.

Credit Information Sharing in Ghana

The microfinance sector in Ghana includes a host of credit providers ranging from rural banks, payroll lenders, and credit unions to various categories of non-bank microfinance institutions (MFIs), including Financial NGOs (FNGOs) and individual moneylenders. There are over 2,200 MFIs belonging to any of seven apex organizations and arranged within four regulatory tiers. The umbrella body of all apex organizations, the Ghana Microfinance Institutions Network (GHAMFIN), represents the cumulative interests of all MFIs' activity in the market.

Unlike other emerging credit information markets where the regulator licenses one credit bureau and then gradually expands to include others, the Bank of Ghana (BoG) has licensed three credit bureaus³ in rapid succession, establishing the basis for a competitive credit information market from the start. Equally significant is that non-banks (including MFIs and non-bank financial Institutions—NBFIs) licensed by BoG were compelled, along with banks, to start sharing positive and negative data with credit bureaus. This has formed the basis for more detailed borrower records being available to credit providers when they are making their loan

origination decisions. However, in spite of the enabling policy environment created for credit information sharing in Ghana, MFI integration into the credit information system remains limited for the following reasons:

- **LIMITED USE OF A NATIONAL IDENTIFICATION (ID) SYSTEM.** Ghana is working on a national ID system, but it is still in development; thus, there is no single unique identifier within the licensed credit bureau market. Biometric technology is increasingly being used in Ghana in some markets as a way to establish the identities of individuals. However, it has yet to be applied broadly to the financial services market.
- **LACK OF REGULATORY COMPLIANCE.** The CRA requires that positive and negative data be shared among all BoG licensed institutions. It also requires that a credit review be undertaken at a credit bureau for each borrower loan application. However, because the data reporting formats finalized by BoG did not take into account the capabilities of MFIs, which were not licensed at the time, these institutions do not have the depth of information needed to fully comply with regulations.
- **LACK OF EXPERTISE AND SYSTEMS AT THE FINANCIAL SERVICE PROVIDER (FSP) LEVEL.** At the same time, newly licensed MFIs that are trying to comply are finding that they lack the expertise to manage credit bureau data submissions.
- **LIMITED ENGAGEMENT WITH THE MFI SECTOR.** Mainstream credit bureaus have paid little attention to the MFI sector as they consolidate data from banks and NBFIs. Therefore, no processes have been developed to better integrate the microfinance sector.
- **LIMITED CONSUMER DISPUTE ARBITRATION.** The CRA contains consumer recourse provisions concerning where to dispute incorrect data. The Investigation and Consumer Reporting Office (ICRO) is the BoG watchdog for protecting consumers of financial products/services and educating them on their rights and responsibilities. However, it is not clear that poor and low-income microfinance clients are aware of the process for dispute resolution and their rights in this regard.

CREDIT INFORMATION USAGE

Type of MFI Institution	Apex	Number of Borrowers	Market Share	Data Submission
Rural/Community Banks	ARB	990,753	51%	Credit bureaus
Savings and Loan Companies	GHASALC	393,019	20%	Credit bureaus
Credit Unions	CUA	145,884	7%	No submission
FNGOs	ASSFIN	161,592	8%	No submission
Susu Collectors ⁴	GCSCA	N/A	N/A	Not required to submit
Microfinance Companies	GAMC	109,751	6%	Own solution + credit bureaus
Moneylenders	MLAG	150,000	8%	Credit bureaus
Total		1,950,999	100%	

Source: GHAMFIN, 2013

³ Dun & Bradstreet Credit Bureau Ltd., Hudson Price Data Solutions, and XDS Data Ghana Ltd.

⁴ Not licensed by BoG.

GHAMFIN Role in Promoting Credit Information Sharing

In an effort to address the challenges faced by its members in reporting to the existing credit bureaus, the Ghana Association of Microfinance Companies (GAMC), one of GHAMFIN's apex members, started its own data sharing initiative. It approached a technical service provider (TSP) familiar with MFI loan management software to develop a customized credit information platform for GAMC members. The solution that was eventually developed was fairly easy to implement and had very swift uptake by members. Interested in expanding the use of this software to other FSPs in the market, GAMC approached The SEEP Network under the Responsible Finance through Local Leadership (RFL) program to undertake an assessment of the credit information sharing (CIS) system in order to evaluate the feasibility of transforming it into a credit bureau for all MFIs.

The assessment confirmed that the GAMC system was a technically reasonable solution, which addressed one of the biggest credit information weaknesses in Ghana by introducing a biometric fingerprint reader that holds the potential to more correctly identify every borrower. It also was priced very competitively at \$100 USD per year,

irrespective of the number of inquiries/credit reports, with an additional \$150 USD one-off cost per biometric fingerprint reader. In a very short time, GAMC had 170 of its members using the system.

The assessment also found, however, that there were operational functionality challenges, since the service provider failed to identify a host of regulatory, financial, and market issues that reduced the system's broader applicability to the market. Indeed:

- By collecting and storing borrower data and producing credit reports, the service provider was in contravention to the CRA as it was operating as a de facto credit bureau without the necessary credit bureau license.
- Because the reported data was not being integrated into the licensed bureaus, the GAMC MFIs were left without full borrower financial exposures.
- While pricing for the service was competitive, it would not have been financially sustainable after meeting all of the requirements of a licensed bureau.

In the final analysis, it became clear that the challenges to MFI data sharing would not be adequately addressed with this solution and that a broader dialogue around MFI integration into existing credit bureaus was needed. As part of GHAMFIN's industry coordination role, the national association has worked together with The SEEP Network to facilitate a national dialogue around credit information sharing to promote a coordinated response among key market actors in order to facilitate this integration.



About GHAMFIN

The Ghana MicroFinance Institutions Network (GHAMFIN) was registered in 1998 as a company limited by guarantee. It is a network of associations and their member institutions engaged in the provision of microfinance services. Its membership base is made up of a diverse range of microfinance sector actors, including its member apex associations (comprising the Ghana Cooperative Credit Union Association (GCCUA); Association of Financial NGOs (FNGOs); Ghana Association of Microfinance Companies (GAMC); Ghana Cooperative Susu Collectors Association (GCSCA), Ghana Association of Savings & Loans Companies (GHASALC), Association of Rural Banks (ARB), and Money Lenders Association of Ghana (MLAG)) and associate members consisting of business development and technical service providers. GHAMFIN offers a range of products and services to its members and the broader market (including policymakers, donors, regulators, investors, and research institutes) centered around its four core pillars of Policy/Advocacy, Transparency and Information Exchange, Capacity Building, and Consumer Protection.

Market System–Level Activities Implemented with Key Stakeholders

Building Awareness

- The detailed investigation into the GAMC CIS system was a critical first step in raising market actors' awareness of the MFI credit bureau challenges and increasing interest in finding common long-term solutions for the benefit of the broader financial market.
- This assessment broadened the discussion from finding a specific solution for the members of one apex (GAMC) to include all MFIs represented by the national association (GHAMFIN), the regulator (Bank of Ghana), and the private sector (the three currently licensed credit bureaus and software service providers).
- It also brought into focus dedicated MFI front-end software that could be used to share credit information.

Sharing Knowledge and Expertise

- Based on the level of interest and engagement generated, The SEEP Network organized an exposure visit in January 2015 of key market actors (credit bureaus, regulators, FSPs, member-based associations, and private-sector consultants) to South Africa. The study tour helped shed

light on the complementary roles and functions of the various institutional providers in a mature CIS system and provided models now being considered by BoG for Ghana, such as a common data platform and a credit providers association.

- At the national level, GHAMFIN, BoG, and The SEEP Network jointly organized a workshop in May 2015 with FSPs, credit bureaus, and technical service providers to share lessons learned from South Africa and to identify some of the key challenges to and opportunities for improved credit reporting in the microfinance sector in Ghana. Challenges around simultaneous data submission to all CBs, the need for a streamlined reporting format for MFIs, and the importance of a more robust group of data providers (e.g., asset registry, utilities, and finance houses) were highlighted for further action.

Building Uniformity in Data Submission

- In an effort to meet some of the short-term needs of the market around credit reporting, GHAMFIN and BoG have begun reviewing the industry data template in order to address the capacity constraints and reporting needs of all

financial institutions. This process will also involve a discussion with local service providers to review BoG requirements and how existing MIS can be modified to integrate CIS functionality at the MFI level.

- At the same time, BoG is leading discussions around the need for a common data platform for bank and non-bank FSPs to help consolidate the data submission process. The working group is drafting a scope of work for a third-party common data platform, with key requirements and technical specifications for the system (e.g., gather and dump versus simple validation process, user access, front- and back-end requirements, etc.), which will be considered by a larger stakeholder group.

Developing a Steering Structure

- During the national CIS meeting in May 2015, stakeholders expressed a strong desire to consider the establishment of a credit providers association, similar to the model used in South Africa, that would monitor data quality and data submissions, among others. GHAMFIN and BoG, with the support of The SEEP Network, will convene a first meeting of a steering committee to discuss this and other long-term needs around data sharing in Accra at the end of 2015.

KEY STAKEHOLDERS

Stakeholder	Role
GHAMFIN	Representing seven MFI "sub-associations," or "apexes," GHAMFIN is the custodian of MFI activity in Ghana and plays a pivotal role in coordinating strategic initiatives. The credit bureau strategy is one such initiative that could fundamentally change credit origination in the MFI industry. Ultimately, GHAMFIN is responsible for promoting a sustainable MFI industry, and the integration of the MFI market into the nation credit bureaus is a core ingredient of industry sustainability.
MFIs	The principal beneficiaries of this initiative are local MFIs; therefore solutions that will be developed have to take into account their needs and constraints. MFIs are represented by their respective apexes and GHAMFIN, but a few of them could also be involved in the ongoing discussions.
Bank of Ghana	The Central Bank (BoG) issues licenses to credit bureaus, which have to meet many requirements before they can qualify for a license. BoG also licenses MFIs. BoG thus sits at the intersection of credit bureau and MFI industry development. Whatever solutions are developed in Ghana around credit information sharing will require the support of BoG.
Credit Bureaus / Technical Service Providers	Credit bureaus and technical service providers are essentially involved in data management, which requires a high degree of relevant IT expertise. It is important to maintain an ongoing relationship with these entities so that they understand the specific challenges facing MFIs and can deliver solutions appropriate for the sector.
The SEEP Network	Through its partnership with GHAMFIN, The SEEP Network has used its facilitation role in Ghana to engage a broader range of stakeholders around the issue of credit information sharing, encouraging local market actors to come up with sustainable solutions and providing continuous momentum to MFI integration.

GHAMFIN's Next Steps in Coordinating Market Actors around CIS

In a relatively short period of time—six months—significant developments have taken place. What started as a narrowly focused study to assess a particular credit information sharing solution quickly turned into a broader recognition of larger credit information issues and the need for a renewed focus on MFI integration into existing credit bureaus. If nothing else, the current discussion around purchase of the GAMC technology solution by a multinational credit bureau could be hugely significant. It signals the

intent of a major credit bureau to offer products and services to the MFI sector, which had previously not been its traditional market. It is also fair to reflect that this possible transaction probably would not have transpired had it not been for the efforts of GHAMFIN to support its member GAMC's MFI bureau solution.

While there is still much work in progress, there are indeed positive signs that gaps in Ghana's credit information landscape can be filled.

MAINSTREAMING MFI CREDIT REPORTING: SUCCESS FACTORS

- **COMMITMENT:** No MFI can argue against introducing responsible lending practices. A credit bureau represents a central place where borrower data can be stored and retrieved to ensure that responsible lending criteria are met. Yet many MFIs remain indifferent (see "Common MFI Misconceptions about Credit Information Sharing" on the next page) toward utilizing credit bureaus. If there is no long-term commitment to seeking solutions, the project is unlikely to succeed.
- **PARTICIPATION:** If the larger MFIs are not part of the system, credibility is easily lost among others in the sector.
- **LAWS AND REGULATIONS:** Any solution pursued must take into account the regulatory environment. No solution is worth consideration if it violates this environment.
- **BUREAU READINESS:** What data does the MFI currently have in relation to the standard industry data template? Do the data contain most of the mandatory fields required in the industry template? Should MFIs negotiate fewer mandatory requirements?
- **DATA INTEGRATION:** Whatever solution is being investigated must have the ultimate objective of MFI data integration with other credit bureau data. Information silos must be avoided.
- **IT INFRASTRUCTURE:** Does the MFI currently use a loan management software package? Is it connected to the Internet?
- **DATA CHANNELS:** Is the licensed credit bureau the only channel through which data can be submitted? Can it be channeled through intermediaries/service providers? Have suitable intermediaries/service providers been identified and consulted?
- **COST:** What potential volume of credit inquiries within a twelve-month period will dictate price negotiations? What are the cost implications for the MFI of preparation activities prior to submitting data to a credit bureau?
- **TECHNICAL SUPPORT:** MFIs should consider securing appropriate expertise to assist them in getting "bureau-ready."
- **GOVERNANCE:** If data submission is voluntary, the MFI apex should consider a code of conduct that spells out the rules of data submission among its members.

Common MFI Misperceptions about Credit Information Sharing

Credit bureaus are only for banks. Not at all. MFIs play an important part in the supply of financial services. This sector often has more borrowers than the formal banking sector. If responsible lending is to be taken seriously, credit providers require the full analysis of all financial exposures of a borrower from all economic sectors.

Credit bureaus are too costly. They don't have to be. Credit reports could be tailored to meet specific MFI requirements. MFIs should negotiate a price or product formula with credit bureaus. MFIs, furthermore, often forget the opportunity cost of not participating in data sharing arrangements. They usually think only of the face value of direct credit bureau costs. Instead, MFIs should consider the resources and expenses associated with following up on delinquent loans and other collections activities. Client selection is vastly improved through diligent analysis of borrower repayment histories at a credit bureau. This marginal cost significantly offsets collection and other bad debt costs.

Submission of loan portfolios to credit bureaus is too difficult. Not really. If MFIs' loan portfolios are captured on computer, much of the foundation is already in place. Further modifications will be required, but there are usually adequate IT solutions in any market that can facilitate transmission of portfolio data to and from a credit bureau.

There is no point in using credit bureaus because the data quality is poor. Partly true. Credit bureaus have a responsibility to check certain incoming data for correctness and to reject data if they do not meet minimum validation rules. Credit bureaus, however, cannot know whether a loan amount or repayment period is correct. MFIs carry this responsibility. MFIs are also required to submit borrower loan update information, usually on a monthly basis, and to submit their full loan portfolios to credit bureaus, not just those borrower records that they choose to let other credit providers see. Thus, MFIs and credit bureaus are equally responsible for good data quality.

I will lose clients if I share their data with a credit bureau. No. There are ways to mitigate this risk. For example, the names of MFIs can be "masked" so that a credit report simply refers to "Lender 1, Lender 2, Lender 3," Ultimately, MFIs will lose clients either because the client chose to move or a competitor offered a better deal or product to that client. MFIs do not lose clients because of credit bureaus.

Credit bureaus make poor lending decisions. Not true. Credit providers often inform clients that they cannot grant a loan because "the credit bureau says so." Irrespective of how bad a borrower's credit record looks, only a credit provider can decline to provide that borrower with credit. Furthermore, there are no "blacklists" at credit bureaus that can deny a borrower credit.

I am compliant with credit bureau regulations, so I am a responsible lender. Not quite. MFIs consider themselves "compliant" if they make credit bureau inquiries. Often, however, they do not use this information to make proper borrower assessments. If MFIs access credit bureau data and then don't use them, they cannot be deemed "responsible."