



Caribbean Credit Bureau Program

For nearly a decade, IFC has been at the forefront of private credit bureau development in emerging markets.

Credit bureaus play an essential role in the financial infrastructure of emerging markets, and are of particular importance to the development of the small and medium enterprise (SME) sector. Throughout the world, the SME sector is a significant contributor to GDP and employs more than 60% of the workforce. Yet this sector is largely underserved by the financial community and is considered high risk. This is largely due to the fact that information about the credit history of SMEs tends to be unavailable. Establishing a credit bureau solves this problem by enabling financial institutions to evaluate the risk of individual SMEs more accurately, ultimately resulting in increased availability of credit and lower borrowing costs.

Benefits of Credit Bureaus

- ✓ **Reduces the need for “physical collateral”:** Instead of relying exclusively on pledged cash or assets, a credit report enables lenders to base credit decisions on “reputational collateral.” People with a strong borrowing history but little physical collateral are thereby able to access loans that would be otherwise unavailable.
- ✓ **Enables the “unbanked” to have a credit history:** Credit bureaus enable the creation of a credit history for people who access public services (i.e., utilities, telephone companies) but have not yet ventured into the formal banking system. This non-bank credit history can be instrumental in obtaining a first-time loan.
- ✓ **Decreases loan cost and processing time:** Credit reports present consumer information in a user-friendly format, thereby speeding up the decision making process and turnaround time for loans. Ultimately, this results in a reduction in the transaction cost of loans, which can be passed on to the consumer in the form of lower interest rates.
- ✓ **Increases access to financing of SMEs:** According to studies done by IFC on 5,000 firms in 51 countries, the percentage of firms reporting constraints in obtaining financing declined from 49% to 27% after credit bureaus began operations in their regions.
- ✓ **Lowers interest rates over the long term:** Credit bureaus give lenders information about consumers, therefore lowering their risk of lending. Lenders use this information to more accurately assign interest rates to borrowers, which can make lending more affordable to customers.

How a Credit Bureau Works

A credit bureau is designed to alleviate the risk of lending to unknown individuals, and it does so by collecting information about a borrower’s credit history from lenders, retailers, utilities and other available public sources.

Credit bureaus compile information into a comprehensive credit report, which is then sold to creditors under strict privacy policies. The information that is compiled may include credit repayment records, court judgments, and bankruptcies. Creditors use this information to evaluate potential lenders more accurately.

Key Success Factors

Establishing a successful credit bureau in an emerging market can be a challenge. Several steps must occur: building awareness in the community, establishing an appropriate legal and regulatory framework, gathering support from market participants, ensuring commercial viability, training regulators, and identifying appropriate operators (including technology solutions and software). Perhaps the most important element of all is the data: a wide spectrum of data must be housed. It must be relevant, accurate and complete, and it must be updated regularly by the contributors of the data.

In partnership with the **Canadian International Development Agency (CIDA)**, IFC has been supporting the development of credit bureau in the English speaking Caribbean since 2009. IFC plans to incorporate Haiti into the program in 2010.

IFC's Credit Bureau Experience

IFC's Global Credit Bureau program provides technical assistance and expert advice on the development of credit reporting infrastructure through feasibility studies, legal and regulatory advice, research, public awareness projects, and long-term coaching and advice. Since 2001, the program has:

- ✓ Created or significantly improved credit bureaus in 10 countries
- ✓ Received 34.7 million inquiries in countries where IFC helped establish or significantly improve a private credit bureau
- ✓ Drafted or contributed to the drafting of new laws and regulations in 19 countries
- ✓ Organized over 60 credit bureau seminars, conferences, and outreach events in 40 plus countries
- ✓ Monitored the credit reporting environment in over 178 countries through the Doing Business Report

Caribbean Credit Bureau Program Results to Date

Bahamas & Belize: At the request of the Central Banks, IFC held initial meetings in both markets that revealed great interest in development of a private credit bureau. IFC is now completing Legal/ Regulatory and Business assessments in both markets, including input from banks, credit unions, retailers, and regulatory authorities.

Barbados: IFC is working closely with CARTAC (Caribbean Regional Technical Facility for the IMF) to gain the government's support for credit bureau legislation. A key stakeholder is the Barbados Bankers Association, which is a strong supporter of the credit bureau. IFC is also working the Central Bank to determine the most appropriate governance structure of the bureau, including options for a Code of Conduct or regulation by the Central Bank.

Guyana: Guyana passed credit bureau legislation into law in June 2010. IFC contributed by drafting the legislation and working with the central bank to tailor the language appropriately. Since that time, IFC has been engaged with the Central Bank to develop regulations to support the legislation, and is also developing training for the regulators, as well as consumer education materials.

Jamaica: In March 2010, the Credit Reporting Act was passed in Jamaica, allowing for the licensing of credit reporting agencies and credit information sharing between financial institutions. IFC played a key role in achieving this milestone by meeting with stakeholders and sharing best practices and comments on the proposed legislation.

OECS/ECCB: The ECCB operates as the central bank for the 8 member states of the OECS. Since credit bureau legislation must be passed in each member state Parliament, IFC is working with the ECCB and key stakeholders in each country to educate them on credit bureaus so as to gain the support necessary for legislative advances and credit bureau development.

Trinidad and Tobago: An unregulated credit bureau has been operating in Trinidad since 2004. IFC is advising the Central Bank on best practices in credit bureau regulation. The Central Bank has indicated its willingness to take on the role of regulating the credit bureau, but the program has been put temporarily on hold during government elections and related staffing changes.

Haiti: IFC will conduct an assessment of possible post-quake options for getting a credit reporting system up and running, with a long term vision of establishing a credit bureau.



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